



## NZAuASB Board Meeting Agenda

Wednesday, 3 April 2024

9:00 am to 5.00 pm, Virtual, [Click here to join the meeting](#)

Apologies: None

Est.Time	Item	Topic	Objective		Page	Supplementary	
	<b>B: PUBLIC SESSION</b>						
9.15am	<b>1</b>	<b><u>Board Management</u></b>					
	1.1	Action list	Approve	Paper	3		
	1.2	Chair's report	Note	Verbal			
	1.3	AUASB Update	Note	Verbal			
	1.4	Update from CE	Note	Verbal			
	1.5	IAASB report March meeting	Note	Late			
	1.6	Prioritisation schedule 2023/2024	Note	Paper		3	
9.45am	<b>2</b>	<b><u>ISA for LCE</u></b>				<i>BM</i>	
	2.1	Summary paper	Note	Paper	4		
	2.2	Issues paper	Consider	Paper	6		
	2.3	Memorandum	Consider	Paper	8		
10.15am	<i>Morning tea</i>						
10:30am	<b>3</b>	<b><u>Update from Channa Wijesinghe, APESB Chief Executive &amp; IESBA Board Member</u></b>					
	3.1	Summary paper	Note	Paper	10		
10:45am	<b>4</b>	<b><u>Sustainability Ethics and Independence</u></b>				<i>KT/AH</i>	
	4.1	Summary paper	Note	Paper	11		
	4.2	Draft submission	Approve		13		
	4.3	Summary of feedback heard in focus groups	Note			6	
	4.4	XRB staff summary of the proposals	Note			13	
11:45am	<b>5</b>	<b><u>Use of Experts</u></b>				<i>NCB</i>	
	5.1	Summary paper	Note	Paper	30		
	5.2	Draft IESBA submission Ethics and Independence	Approve	Paper	33		
	5.3	Use of Experts Exposure Draft	Note	Paper		24	
12:45pm	<i>Lunch</i>						
1.45pm	<b>6</b>	<b><u>Service Performance Review Standard</u></b>				<i>LT</i>	
	6.1	Summary paper	Note	Paper	41		
	6.2	Draft consultation paper	Approve	Paper	44		
	6.3	Draft exposure draft	Approve	Paper	50		
2.45pm	<i>Afternoon tea</i>						
3.15 pm	<b>7</b>	<b><u>Fraud</u></b>				<i>SW</i>	

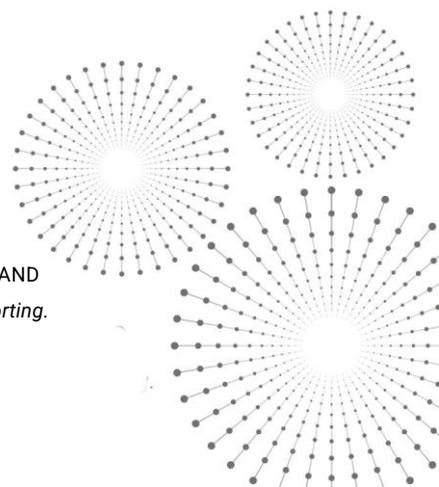
Est.Time	Item	Topic	Objective		Page	Supplementary
	7.1	Summary paper	Note	Paper	86	
	7.2	Draft submission	Approve	Paper	90	
4.15pm	<b>8</b>	<b><u>Narrow Scope Amendments – Public Interest Entities</u></b>			SW	
	8.1	Summary paper	Note	Paper	98	
	8.2	Draft submission	Approve	Paper	100	
4:30pm	<b>9</b>	<b><u>Environmental scanning</u></b>				
	9.1	International Update	Note	Paper	106	
	9.2	Domestic Update	Note	Paper	111	
	9.3	Update for XRB Board	Note	Paper	113	

**Next meeting:** 12 June 2024, In-Person, Wellington Office, 154 Featherston Street

**NZAuASB Action list**

Following February 2024 meeting

Meeting Arose	Board Action	Target Meeting	Status
Oct 2023	Continue to explore next steps on trust and confidence with the IOD	April 2024	To consider further research opportunities before committing to next steps



## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	2.1
<b>Meeting date:</b>	3 April 2024
<b>Subject:</b>	ISA for Less Complex Entities (LCE)
<b>Date:</b>	19 March 2024
<b>Prepared By:</b>	Bruce Mcniven

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objective

1. The objective of this agenda item is to DISCUSS ways to manage communication risks to the XRB around the International Standard on Auditing (ISA) for Audits of Financial Statements of Less Complex Entities (LCE).

### Background

2. As we continue on our journey on the potential adoption of this standard, and building on the discussions from previous NZAuASB meeting and discussions with the IAASB Chair, Tom Seidenstein; today we consider two aspects:
  - a. Asserting compliance with the ISA for LCE in the audit report.
  - b. Ways to manage the communication risks during the consultation phase, including ways to manage the risks of creating the perception of a two-tier audit.

### Matters to Consider

*The audit report – asserting compliance with the ISA for LCE.*

3. At agenda item 2.2 we discuss whether or not the auditor should assert compliance with the ISA for LCE in their auditor's report. On balance, we recommend that the auditor should assert compliance with the ISA for LCE in their report, to ensure transparency and also align our standard with the IAASB requirements.
4. **The Board's views are sought on:**
  - a. **Do they agree that the auditor should refer to using the ISA for LCE in their audit report?**
  - b. **If referencing the ISA for LCE in the audit report is an issue, should the name of the standard be changed?**
  - c. **Should the auditor's report be silent as to the standard used?**

### *Communications approach*

5. At its last board meeting, the XRB board discussed the proportionality of the standard, i.e., how it results in the same level of assurance while being scaled for a less complex entity. In that board meeting, they asked for further details on a comms strategy around the ways to manage the risk of a perceived two-tier audit environment.
6. At agenda item 2.3 is a Memorandum from the Head of Communication and Engagement providing a broad outline of an approach to manage communication risks during the consultation phase. A more detailed Communication and Engagement Plan will be developed which will include more detailed key messages and engagement activities. This memo is for information purposes only.

### **Next steps**

7. Work is well underway in the drafting of Part 11, audit of service performance information, and the identification of NZ specific paragraphs in the ISA (NZ) for LCE. We will work with the committee over the next few months, aiming to present the first read of the draft standard at the next possible meeting.

### **Material Presented**

Agenda item 2.1	Board Meeting Summary Paper
Agenda item 2.2	Issues Paper
Agenda item 2.3	Memorandum

## Asserting compliance with the ISA for LCE: Issues Paper

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*The audit report – asserting compliance with the ISA for LCE.*

1. The ISA for LCE standard requires that the auditor assert compliance with the ISA for LCE, not the full ISAs, in their auditor's report:

We conducted our audit in accordance with the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (the ISA (NZ) for LCE).

2. Concerns exist regarding the use of the word *less* in the title of the standard, potentially signalling a lesser (than an ISA) audit, or implying a two-tier audit environment. However, the term *less complex entity* is an accurate description of the types of entities that would be audited by this standard and recognises that the entity is not as complex as others, i.e., it is *less-complex*. The word *less* does not refer to the quality of the standard or the level of obtained. This will be important to highlight in our consultation document.
3. In its [submission](#) to the IAASB, the NZAuASB wrote:

"...Separating it and labelling it as something different or "less" runs the risk of confusing and creating a perception problem, possibly causing reluctance to use the standard. This is exacerbated by the requirement that the LCE auditor's report would need to identify that a different auditing standard has been applied in the audit of an entity, which risks confusing users as to the nature of the audit and the level of assurance being provided. There is a need for ongoing education to avoid this misperception..."

"...During our outreach, this concern was not shared by the sole practitioners or auditors from smaller audit firms we heard from, as the majority support the title of the standard. These stakeholders did not think that the words 'less complex' affect the perception of an LCE audit. They considered that an LCE audit still provides reasonable assurance, and that the title rather highlights that it is the "right" amount of audit for this type of entity. This view is also supported by the AFAANZ, who liked the title because it includes the nomenclature 'Less Complex Entities' which is consistent with the scope of the proposed standard..."

4. If we compared an unmodified ISA for LCE audit report with an unmodified ISA (NZ) audit report (of, say, a charity), both would state that the auditor's responsibility is to obtain *reasonable assurance*. The key difference would be the standard referenced by the auditor. The wording of the opinion is no different between the ISAs (NZ) and the ISA for LCE.
5. This issue was debated globally. An alternative, suggested by some, was to omit the ISA for LCE reference in the audit report. However, the IAASB, in its Basis for Conclusions stated:

The IAASB considered respondents' suggestion that a reference to the ISA for LCE in the auditor's report is not needed and was of the view that the auditor's report should continue to refer to the ISA for LCE for transparency. This is consistent with the decision on including a reference to the ISA for LCE in the engagement letter or other suitable form of written agreement.

6. In his visit to New Zealand, the IAASB chair Tom Seidenstein reiterated that referencing the ISA for LCE in the auditor's report promotes transparency. The auditor is being transparent over which book (or framework) the auditor has used. It does not imply a lesser quality product.

7. Tom referred to the following examples where the auditor is required to identify the standard that they comply with:
  - (a) An auditor obtains reasonable assurance regardless of whether using ISAs or the PCAOB standards<sup>1</sup> (or the ISA for LCE).
  - (b) Revising an auditing standard does not change the level of assurance provided. As the ISAs are revised and updated, it does not render an audit undertaken previously a lesser product.
8. Further, Tom noted that an auditor cannot assert compliance with the full ISA when they use the ISA for LCE because during the stability period, the standards may be slightly different in their requirements (i.e., the full ISA may be updated over fraud or going concern while the ISA for LCE is in its stability period) and also the full ISA covers different topics (such as Key Audit Matters) which are not in the ISA for LCE as they are not relevant to less complex entities. Therefore, it would not be technically correct for an auditor to state that they have complied with the full ISAs when they have in fact used the ISA for LCE.
9. Taking all this into account, we recommend that if the XRB adopts the ISA for LCE standard, we maintain the IAASB's requirement for the auditor to state in their report that they have undertaken the audit in accordance with the ISA for LCE (with a reference added only to New Zealand) rather than requiring the auditor to assert compliance with the ISAs (NZ). Further we do not have any alternative names to suggest should the board wish to change the name of ISA for LCE in the New Zealand context. Maintaining the name of the standard as it standard currently would ensure international consistency.
10. To address the risks, clear communication are critical to address any residual concerns to ensure stakeholders understand that the ISA for LCE delivers the same level of assurance, albeit with a tailored approach for less complex entities. This is incorporated into our communications approach.

**12. We seek the Board's views on:**

- **Do they agree that the auditor should refer to using the ISA (NZ) for LCE in their audit report?**
- **If not:**
  - **If referencing the ISA for LCE in the audit report is an issue, should the name of the standard be changed?**
  - **Should the report be silent as to the standard used?**

<sup>1</sup> As an aside, other standards issued by the XRB that enable the practitioner to obtain reasonable assurance are: ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, SAE 3100 (Revised) *Compliance Engagements*, SAE 3150 *Assurance Engagements on Controls*, ISAE (NZ) 3402 *Assurance Reports on Controls at a Service Organisation*, ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements*, ISAE (NZ) 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*. For the audit of service performance information, an auditor obtains reasonable assurance whether using ISAE (NZ) 3000 (Revised), NZ AS 1, or NZ AS 1 (Revised) *The Audit of Service Performance Information* in conjunction with the ISAs.

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**Date:** March 2024

**To:** NZAuASB

**From:** Emily Marden, Head of Communication and Engagement

**Subject:** **Communication approach – ISA for LCEs**

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## 1. Purpose

This memo provides a broad outline of an approach to manage communication risks during the consultation phase. A more detailed Communication and Engagement Plan will be developed which will include more detailed key messages and engagement activities.

## 2. Background

Following the IAASB's development of a standalone standard for audits of LCEs, the NZAuASB has recommended to the XRB board that New Zealand adopt the ISA for LCE standard. The XRB board has agreed in principle but has noted potential perception risks involved in adopting the ISA for LCE standard and the need for consideration of this in the communication approach.

## 3. Recommended approach

### (a) Key messages

A key communication risk centres on the perception that an LCE audit will not provide the same level of assurance as an ISA (NZ) audit. To address this, it is recommended that messaging (used throughout all communication collateral and direct engagement) front foots the issue by emphasising that an LCE audit does not reduce the quality of the audit, rather it 'right sizes' the audit relative to the size and structure of the entity.

It will also be important to be clear that the consultation is not about whether the standard will be adopted but is focused on New Zealand specific proposals on the application of the standard.

Additional key messages should also explain, clarify and/or highlight:

- The work we have done to strengthen the standard by setting strict parameters on the use of an LCE audit.
- Large, complex entities with public interest characteristics and FMC reporting entities with higher levels of public accountability will be prohibited from using an LCE audit (E.G the proposed prohibition on the use of the ISA for LCE in audits of Tier 1 reporting entities).
- The suitability of LCE audits for New Zealand's economy given the high number of LCEs such as owner managed businesses, incorporated societies and charities (For example 2408 registered charities report under Tier 2 and Tier 3 and require an audit).
- The additional benefits the availability of this standard offers to reduce pressure on the audit profession.

(b) Tailored rather than broad brush engagement

There are three distinct audience groups for whom this consultation will be relevant. These are:

- I. Practitioners and Professional Bodies (CAANZ, CPA Australia)
- II. Potential applicable entities (small PBEs, Tier 2 & 3 Not for Profits and Incorporated Societies)
- III. Users of audit information; (Banks, funders), regulators; (Charities DIA, Companies Office)

Due to the maturity of our relationship, frequency of engagement and the level of technical knowledge among practitioners and professional bodies, a business-as-usual approach to engaging with this group will suffice. However, while the level and frequency of engagement with potential applicable entities and users of audit information has grown in recent years, this has primarily focused on accounting, rather than audit standards. Additionally, the level of technical knowledge and understanding is likely to be relatively low, and overall, it may be more challenging to stimulate interest with these groups.

Therefore, it will be important to ensure all communication and engagement with these groups is concise, free of jargon and technical information and clearly articulates:

- what this is about
- what it means for them and
- what we are seeking their views on

#### **4. Tactical delivery**

Alongside the Consultation document and ED, communication collateral and engagement tactics will include;

- At a Glance document (aimed at non-technical audiences)
- Survey targeted at non-practitioners (potential applicable entities and users of audit information)
- LinkedIn posts
- Walk through webcast
- Live webinar/s
- Insight article
- One to one meetings
- Focus group discussions

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	3.1
<b>Meeting date:</b>	3 April 2024
<b>Subject:</b>	Accounting Professional & Ethical Standards Board update
<b>Date:</b>	15 March 2024
<b>Prepared By:</b>	Misha Pieters

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**Action Required**

**For Information Purposes Only**

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### **Agenda Item Objectives**

1. To receive an update from Channa Wijesinghe, Accounting Professional & Ethical Standards Board (APESB) Chief Executive (CE), and IESBA member.

### **Background**

2. It has been a long while since the APESB CE last joined a NZAuASB meeting. Last time the NZAuASB and the APESB worked closely together on a project was when the NZAuASB and the APESB were finalising the standard on Non-Assurance Services, and in writing a joint letter to the IESBA in its developing plans for the sustainability project.
3. The APESB is an independent, national body that sets the code of ethics and professional standards with which accounting professionals who are members of CPA Australia, CA ANZ or IPA must comply. The APESB is equally funded by CPA Australia, CA ANZ and the IPA.
4. XRB staff work closely with APESB staff on matters relating to the Code of Ethics.
5. Channa is an IESBA member, is on the sustainability task force, working with Mark Babington, responsible for the proposals that the NZAuASB, and chaired the reference group comprising of a range of practitioners that acted as a sounding board to the task force. Channa has also recently been appointed as Chair of the IESBA's working group dealing with firm culture and governance.

### **Matters to discuss**

6. Prior to the NZAuASB discussions on its draft submissions on sustainability and use of experts, Channa will brief the Board on:
  - a. Key developments on the APESB's work plan of relevance to the XRB's mandate;
  - b. The APESB's developing submissions (noting that the APESB board will not yet have met to discuss its submissions in detail) following outreach in Australia.
7. Channa is invited to join the discussions on the NZAuASB submissions, with the opportunity for the Board to hear perspectives from Channa as the Board develops its submissions.

### **Material Presented**

Agenda item 3.1

Board Meeting Summary Paper

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	4.1
<b>Meeting date:</b>	3 April 2024
<b>Subject:</b>	Sustainability Submission to the IESBA
<b>Date:</b>	20 March 2024
<b>Prepared By:</b>	Karen Tipper, Anna Herlender

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

The objective of this agenda item is for the Board to **APPROVE** the draft submission to the IESBA on the exposure draft: *Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting*, subject to an evaluation of any written submissions received.

### Background

1. The [Exposure Draft](#) and [Explanatory Memorandum](#) were issued by the IESBA in January 2024. The comments are due on 10 May 2024. Our consultation period with New Zealand stakeholders finishes on 15 April 2024.
2. The NZAuASB discussed the proposal during the February Meeting and provided high level comments for the inclusion in the submission.
3. To facilitate navigation through the IESBA proposals for our stakeholders, we issued a document that includes a [summary of the IESBA's proposals](#) for sustainability and use of experts. It is also included in the agenda item 4.4.
4. Our outreach events included both the IESBA's proposal on sustainability and the use of experts. These included two focused group meetings with practitioners from various backgrounds. Overall, the feedback was positive with agreement of the importance of high ethical and independence standards. The concerns raised related to length of the proposal, the technical language included, and the complexity of navigation between various requirements. More detailed notes from the feedback received are included in agenda item 4.3. As of 20 March 2024, no submissions have been received on these new proposals.

### Matters to Consider

5. Some of the IESBA's questions in the submission relate to technical issues. Our draft responses include additional context for the Board, to help navigate the information. The contextual information will be removed by the staff before sending the submission to the IESBA.

### Recommendations

6. We recommend that the Board APPROVES the draft submission to the IESBA subject to and evaluation of any written submissions being received.

**Material Presented**

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	Draft Submission
Agenda item 4.3	Summary of feedback heard in focus groups
Agenda item 4.4	XRБ staff summary of the proposals

[Date]

Gabriela Figueiredo Dias  
Chair  
International Ethics Standards Board for Accountants  
Via email

Dear Gabriela,

***Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting***

Thank you for the opportunity to comment on the IESBA Exposure Draft for Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting. We submit the feedback from the New Zealand External Reporting Board (XRB).

The XRB is an independent Crown Entity responsible for developing and issuing climate, accounting, auditing, and assurance standards (including professional and ethical standards in New Zealand). The XRB enables high-quality, credible, and integrated reporting by providing robust frameworks and standards that are internationally credible, while being relevant to Aotearoa, New Zealand. This ensures reporting and assurance in New Zealand promotes trust, confidence, transparency, and accountability.

The XRB's mandate is limited to developing ethical standards for assurance practitioners. Our consideration of the Exposure Draft is informed in this context.

The XRB supports the IESBA's additions and proposed revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) relating to sustainability assurance. Given the degree of public interest in sustainability assurance, we agree that ethics and independence for sustainability assurance practitioners should be the same high standard as for financial auditors.

We do have concerns that the proposals are long and complex and contain technical language that may not be easily understood by those who are not familiar with the extant Code. We question whether these will be consistently applied by assurance practitioners from different backgrounds. We encourage the IESBA to explore ways to make the requirements easier to understand and navigate for all competent practitioners. We have included suggestions to address our concerns within our responses to selected questions below.

Should you have any queries concerning our submission please contact either myself at the address details provided below or [karen.tipper@xrb.govt.nz](mailto:karen.tipper@xrb.govt.nz)

Yours sincerely,



**Marje Russ**  
**Chair - NZAuASB**  
Email: [MRuss@tonkintaylor.co.nz](mailto:MRuss@tonkintaylor.co.nz)

DRAFT

## Submission of the New Zealand External Reporting Board

### ***Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting***

- 1) Do you agree that the proposals in Chapter 1 of the ED are:
  - (a) Equivalent to the ethics and independence standards for audit engagements in the extant Code? [See paragraphs 19 and 20 of this document]
  - (b) Profession-agnostic and framework-neutral? [See paragraphs 21 and 22 of this document]

#### **Response:**

- (a) We strongly agree that ethical and independence requirements for sustainability assurance should be equivalent to those for audits engagements. Sustainability information is subject to a high level of public attention and it is in the public interest that sustainability assurance engagements follow the same high ethical and independence requirements as financial statements.
- (b) We are concerned that replicating existing requirements from the extant Code for the purpose of sustainability assurance engagements may result in standards that are not profession-agnostic as the language and structure of the requirements would be unfamiliar to other professions and therefore hard to implement.

In 2023, the XRB issued a temporary domestic assurance standard for the assurance of greenhouse gas disclosures within climate statements. During the development of this standard we established a working group of assurance practitioners from different backgrounds. We explored the ethical and independence considerations in the extant Code for inclusion in the domestic standard. We heard that the fundamental principles included in the Code are well understood and supported by a broader range of assurance practitioners but the structure of the Code, the length, language and the complexity might mean that other practitioners could find it difficult to navigate to the relevant parts of the Code.

During our outreach, assurance practitioners from various backgrounds have shared their views on these new proposals. Their concerns included:

- there is a lack of plain language and use of a lot of technical terminology. This may make the requirements hard to interpret for those unfamiliar with the extant Code;
- the length of the proposal may mean that important points might be missed by the readers;
- the complexity of the requirements might lead to inconsistent interpretations and inconsistent application;
- there could be a high cost of implementation of these proposals in smaller organisations.

We encourage the IESBA to issue guidance for those who are not familiar with the extant Code. The guidance could include:

- plain language summaries of each of the sections, which would help to understand each of the topics in Part 5,

- Navigational guides to assist moving between different sections depending on the circumstances (for example: what sections to refer to if you intend to use work of another practitioner)
- “get started” material to help with application of the requirements into systems and processes of those entities who have not applied other parts of the Code.

2) Do you agree that the proposals in Chapter 1 of the ED are responsive to the public interest, considering the Public Interest Framework’s qualitative characteristics? [See paragraph 23 of this document]

**Response:**

We have concerns that the proposal does not meet the following qualitative characteristics identified in Public Interest Framework:

- “*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;”

**Clarity and Conciseness:**

We have heard consistent feedback that the proposals are long, complex, and difficult to navigate. R5405.12 is an example which includes long sentences including a lot of description. This makes it difficult to understand the meaning and intent of the sentence on the initial reading of it.

There was a view from those unfamiliar with the extant Code that the language of the proposal is quite technical and might only be understandable by a limited number of highly technical financial assurance specialists.

We have identified multiple instances where there were varying interpretations of the proposed requirements (for example when to apply “reason to believe test” in relation to value chain entities, independence of another assurance practitioner, and when NOCLAR requirements apply).

**Implementability:**

Sustainability assurance practitioners expressed their concerns that it will be unproportionally more difficult to implement the proposals for them than for traditional accounting firms. Smaller practitioners and those from non-financial audit firms do not typically have technical departments that are specialised in interpreting standards that include such technical language. There would be a high initial and ongoing cost for these firms to implement these proposals.

We have identified that some requirements that are designed to work well in traditional partnership firms might be problematic in entities with different business structures. For example, non-assurance services prohibitions that relate to firms might have a wider impact than was intended and impact the whole organisation of entities with different structures. The application of these requirements could have important or costly implications to their current business models.

**Contextual information for the Board [to be deleted from the final version of the submission]:**

Our response is based on what we heard during the two focused group discussions.

For the context, link to the PIOB's Public Interest Framework: [here](#), qualitative characteristics to which the IESBA refers are on pages 22-23.

The IESBA's view how the Proposal is responsive to public interest: paragraph 23 in [Explanatory Memorandum](#):

“The IESBA is of the view that the IESSA is responsive to the public interest considering the Public Interest Framework characteristics (please refer to question 2), in particular:

- *Coherence* with the overall body of the IESBA's standards, recognizing that the extant Code already encapsulates a robust set of standards that sets expectations for, and guides, ethical behavior with respect to the provision of audit, review, and other assurance services. As such, the extant Code was used as a baseline for developing the ethics (including independence) requirements and application material in the proposed Part 5.
- *Clarity and conciseness* of the standards, by using the Code's structure and drafting conventions for clarity, understandability, and usability. The proposed IESSA follows the same building blocks approach in the extant Code – i.e., starting with the fundamental principles and the conceptual framework as the foundations of the new ethics (including independence) standards for sustainability assurance.

To ensure that the IESSA is applied in the same way as the extant Code in order to achieve equivalence, the language and terminologies used in Part 5 are as much as possible identical to those used in the extant Code, with the exception of the necessary adaptations to meet the objective of profession-agnostic standards and to include sustainability-related examples in the application material. • *Implementability and enforceability*, by adopting an identical structure to the extant Code, with a clear distinction between requirements and application material. Further, making the proposed IESSA part of the Code will avoid the issue raised by some stakeholders about the lengthy legal process of adopting a new standalone standard or Code for sustainability assurance in some jurisdictions. “

- 3) Do you support the definition of “sustainability information” in Chapter 2 of the ED? [See paragraphs 24 to 26 of this document]

**Response:**

We support the definition but believe that there could be confusion in the market due to sustainability information being defined differently in these proposals and in ISSA 5000. We encourage the IESBA to work with the IAASB to align the definitions or to consider using a different term in these proposals such as sustainability related information to differentiate the two and highlight the different scope in each standard.

- 4) The IESBA is proposing that the ethics standards in the new Part 5 (Chapter 1 of the ED) cover not only all sustainability assurance engagements provided to sustainability assurance clients but also all other services provided to the same sustainability assurance clients. Do you agree with the proposed scope for the ethics standards in Part 5? [See paragraphs 30 to 36 of this document]

**Response:**

We agree that those who provide assurance services should adhere to the same ethical standards when providing any other services to assurance clients.

We consider that these requirements might have some unintended consequences for assurance entities that have a different legal structure to the partnership model of traditional accounting

firms. If an entity has several divisions, the proposed provisions could require all divisions to apply the ethical requirements of the Code if they provide other non-assurance services to the client served by the assurance division irrespective of whether they are subject to different ethical requirements for the other services they are performing.

One example of this would be if one division provides assurance services and another one engineering services. It might be onerous for the engineering division to monitor compliance with all ethical provisions included in proposed Part 5 as the systems and processes would not be in place to capture this and the services provided might have no bearing on the assurance engagement.

**Contextual information for the Board [to be deleted from the final version of the submission]:**

Part 5 includes ethical and independence provisions. It is proposed that independence provisions are applied when engagements meet specific criteria (more details in contextual information to question 5). Regarding ethics, it is proposed that ethics will be applied to all services provided to entities who are sustainability assurance clients.

- 5) The IESBA is proposing that the International Independence Standards in Part 5 apply to sustainability assurance engagements that have the same level of public interest as audits of financial statements. Do you agree with the proposed criteria for such engagements in paragraph 5400.3a? [See paragraphs 38 to 43 of this document]

**Response:**

We agree that International Independence Standards in Part 5 apply to those sustainability assurance engagements that have the same level of public interest as audits of financial statements. We support the criteria in paragraph 5400.3a.

**Contextual information for the Board [to be deleted from the final version of the submission]:**

The Proposed Part 5 contains ethical and independence requirements.

Ethical requirements are proposed to be applicable to all assurance engagements and to all other services provided to assurance clients [see also our comment to question 4].

Independence requirements are proposed to be applicable to those assurance engagements that bring the same level of interest as audits of financial statements.

The criteria in paragraph 5400.3a define engagements that have the same level of public interest as audits of financial statements when the sustainability information subject to assurance:

(a) Is reported in accordance with a general-purpose framework (as defined in the proposed revised Glossary); and

(b) Is required to be provided in accordance with law or regulation; or is publicly disclosed to support decision-making by investors or other stakeholders.

The criteria would be useful in New Zealand context, because they would capture the assurance of climate statements reported by climate reporting entities, because:

(a) Climate statements will be reported in line with climate standards issued by the XRB; and

(b) they are required to be prepared by Financial Markets Conduct Act 2013. They will be also publicly disclosed to support decision making by investors and other stakeholders.

If the IESBA's proposal is adopted in New Zealand, the independence requirements in Part 5 will need to be followed by:

- the assurance practitioners providing assurance over GHG information within climate statements of climate reporting entities.
- the assurance practitioners providing voluntary assurance over climate statements issued by climate reporting entities.

The IESBA proposes that the independence requirements apply regardless of whether the engagement is limited or reasonable assurance. We agree that the independence is linked to the public interest in the sustainability information rather than to level of assurance given (that is limited or reasonable).

The IESBA proposes that the practitioners providing assurance over sustainability information that does not meet the above criteria (that is the same level of public interest as financial statement audits) should follow requirements of Part 4B. Part 4 B is mandatory for assurance practitioners applying the IESBA's Code of Ethics (or PES 1 in New Zealand). The IESBA encourages other assurance practitioners also to apply Part 4B for the engagements not meeting the criteria.

- 6) Do you support including Section 5270 in Chapter 1 of the ED? [See paragraphs 46 to 48 of this document]

**Response:**

***Pressures to Breach the Fundamental Principles***

We support inclusion of Section 5270. This section might be particularly useful for assurance practitioners from other backgrounds than financial auditors who are less familiar with the Code.

***Other relevant sections from Part 2***

In our view Section 230 – Acting with Sufficient Expertise, should be brought from Part 2 and, after adjusting it for sustainability considerations, included in Part 5. Sufficient Expertise is especially important for sustainability assurance, as the sustainability assurance area is newer and much wider than the provision of financial assurance services. Including this section would be helpful information for assurance practitioners from all backgrounds to be reminded about the importance of having sufficient knowledge of the context of the sustainability information subject to the assurance engagement. For sustainability, this “contextual knowledge” would need to be topic specific and be in relation to the understanding the entity, its environment and the context of the sustainability information reported by the entity, for example if there are any specific environmental matters or cultural matters (understanding local communities, indigenous communities, etc.)

**Contextual information for the Board [to be deleted from the final version of the submission]:**

Section 5270 deals with Pressure to Breach the Fundamental Principles. This section mirrors section 270 from Part 2 of the extant Code, however it has been adjusted to sustainability assurance examples.

The IESBA asks the question about inclusion this section in the new Part 5, because it is exception from the IESBA's process: only section in Part 1, Part 3 and Part 4 were replicated to Part 5, not Part 2.

We found the section relating to pressures to breach fundamental principles important. It provides further context to application of fundamental principles. We support inclusion of this section in Part 5.

We reviewed the content of the Part 2 of the Code and identified additional section that would be useful to be brought to Part 5. Section 230 – Acting with Sufficient Expertise – could be useful in the

context of the Boards comments during the last NZAuASB meeting relating sufficient expertise and “contextual expertise” of an assurance practitioner.

- 7) Do you support the provisions added in extant Section 360 (paragraphs R360.18a to 360.18a A2 in Chapter 3 of the ED) and in Section 5360 (paragraphs R5360.18a to 5360.18a A2 in Chapter 1 of the ED) for the auditor and the sustainability assurance practitioner to consider communicating (actual or suspected) NOCLAR to each other? [See paragraphs 56 to 67 of this document]

**Response:**

We support the requirements that sustainability assurance practitioners should consider whether to communicate the non-compliance or suspected non-compliance with laws and regulations to the external auditor of the assurance client. We agree that the same communication is required from the external auditor to sustainability assurance client.

- 8) Do you support expanding the scope of the extant requirement for PAIBs? (See paragraphs R260.15 and 260.15 A1 in Chapter 3 of the ED) [See paragraph 68 of this document]

**Response:**

No comment

**Contextual information for the Board [to be deleted from the final version of the submission]:**

IESBA proposes corresponding NOCLAR revisions to Part 2 of the Code, which deals with professional accountants in business. Changes to Part 2 are not within the XRB mandate.

- 9) For sustainability assurance engagements addressed by Part 5, do you agree with the proposal to use the determination of a PIE for purposes of the audit of the entity’s financial statements? [See paragraphs 80 to 85 of this document]

**Response:**

We agree that the same determination of public interest entities (PIEs) is applied for audits and sustainability assurance engagements.

PIEs are determined on the extent of public interest in the financial condition of the entity (publicly traded, banks, insurers). As PIEs are usually the largest entities in local economies, the public has an interest not only in their financial condition but also in their sustainability reporting. Therefore, all entities meeting requirements of PIEs for audit purposes, should be also considered as PIEs when applying ethical standards for sustainability assurance.

As the market develops, there might be some entities that are not captured in the current PIE definition for which sustainability reporting and assurance would be in the public interest.

We encourage the IESBA to monitor the sustainability reporting developments. We expect that when regimes expand, new determinants might be identified to capture all additional entities whose sustainability reporting brings significant public interest.

**Contextual information for the Board [to be deleted from the final version of the submission]:**

Some independence requirements in the Code relate only to assurance clients which are determined public interest entities, because of the public interests in their financial conditions. These entities are publicly traded entities, banks, insurers. The Code imposes more independence

restrictions for assurance practitioners in relation to these entities, for example the self-review threat prohibition.

As the sustainability information and reporting is still evolving, it would be unproportionally difficult to identify specific factors that would determine PIEs only for sustainability assurance purposes. Therefore, we support the IESBA that at the beginning the same entities will be PIEs for audits and sustainability assurance. As the regimes evolve and public interests in sustainability reporting could be better understood, it would be more feasible to identify determinants for PIEs specific to sustainability reporting.

We also support the current PIE definition for sustainability assurance, as there might be entities producing integrated reports. For consistency purposes, the same independence requirements should be applied for those big entities, regarding what type of information they report and how the information is reported.

In New Zealand context, most climate reporting entities would probably meet current PIE definition. Therefore, if the IESBA proposal is adopted, those performing assurance over climate statements would need to apply the independence requirements for PIEs. Our current GHG assurance standard already has one of the PIEs requirements included: the self-review threat prohibition.

- 10) The IESBA is proposing that the International Independence Standards in Part 5 specifically address the independence considerations applicable to group sustainability assurance engagements. [See paragraphs 86 to 92 of this document]
- (a) Do you support the IIS in Part 5 specifically addressing group sustainability assurance engagements? Considering how practice might develop with respect to group sustainability assurance engagements, what practical issues or challenges do you anticipate regarding the application of proposed Section 5405?
  - (b) If you support addressing group sustainability assurance engagements in the IIS in Part 5:
    - (i) Do you support that the independence provisions applicable to group sustainability assurance engagements be at the same level, and achieve the same objectives, as those applicable to a group audit engagement (see Section 5405)?
    - (ii) Do you agree with the proposed requirements regarding communication between the group sustainability assurance firm and component sustainability assurance firms regarding the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement? [See paragraph 88 of this document]
    - (iii) Do you agree with the proposed defined terms in the context of group sustainability assurance engagements (for example, “group sustainability assurance engagement” and “component”)?

**Response:**

We support the inclusion of the requirements related to groups. The requirements for groups are especially important in the light of many regulatory regimes, including our New Zealand climate reporting legislation, requiring reporting of sustainable information by the largest entities, which often are groups

***Complexity of the requirements***

The current group requirements in the Code are complex, especially the provisions relating to the independence requirements for individuals on group engagement team from a non-network

component audit firm. We have concerns that replicating the same provisions for sustainability assurance practitioners might result in unintended consequences:

- Concentration on the audit market, as the provisions might discourage current network firm from using non-network assurance practitioners;
- Complexity of the provisions may deter non-accountant assurance practitioners from providing group sustainability assurance engagements;
- Inconsistent application due to lack of understanding of the group independence provisions.

Additionally, we heard concerns regarding complexity of the proposed provisions resulting in significant difficulties in understanding what is required.

We encourage the IESBA to consider if the requirements in the context of the sustainability assurance engagements could be simplified. We also encourage the IESBA to issue a guidance explaining in simpler manners the requirements and providing examples how they should be applied.

#### ***Material information from value chain entities***

Some sustainability information might include substantial parts of information from value chain entities. This applies to disclosures of Scope 3 of Greenhouse Gas Emissions, which are emissions from the value chain. In some sectors, Scope 3 emissions might be the only material figures in the GHG disclosures. It is unclear if the assurance of Scope 3 emissions in this case should follow independence requirements for components within a group or value chain requirements.

We encourage the IESBA to further explore possible differences in the boundaries of group assurance clients for traditional financial reporting and boundaries for reporting of sustainability information where the value chain information could be material.

#### **Contextual information for the Board [to be deleted from the final version of the submission]:**

The proposed group requirements are based on the recent revisions to the Code in relation to group audits and engagement team definition.

The NZAuASB considered the IESBA's Group related revisions to the Code of Ethics in at its February 2023 meeting. At that point, many Board members raised concerns at the complexity of the provisions, especially relating to the independence requirements for individuals on group engagement team from a non-network component audit firm. Given the complexity, some members were of the view that the requirements may lead to the unintended consequence of audit concentration. However, the Board determined that the XRB should adopt the IESBA's requirements without compelling reason changes, as changes to the requirements would only add further complexity, particularly for global group audits. We are bringing this issue again to the sustainability submission.

- 11) Section 5406 addresses the independence considerations applicable when the sustainability assurance practitioner plans to use the work of another practitioner who is not under the former's direction, supervision and review but who carries out assurance work at a sustainability assurance client. Do you agree with the proposed independence provisions set out in Section 5406? [See paragraphs 93 to 101 of this document]

#### **Response:**

We agree with the proposed independence provisions for another assurance practitioner in section 5406.

We found the Explanatory Memorandum useful in helping us understand the meaning and consequences of the provisions. We suggest the IESBA includes similar explanation in the application material to enable consistent understanding and application of the proposed requirements. It would be useful for the readers of the provisions to understand that:

- Another practitioner needs to also be independent from related entities to the entity on whose sustainability information assurance work is performed. This requirement is laid out more clearly in EM paragraph 98 than R5406.5.
- If a firm intends to use the work of another practitioner who performs assurance work at an entity that is not a PIE, but the entity on whose sustainability information the firm expresses an opinion is a PIE, the firm will need to request confirmation that the other practitioner is independent of the entity on whose sustainability information that practitioner performs assurance work in accordance with the provisions applicable to PIEs. This is stated more clearly in the explanation included in EM paragraph 99 than in requirement R5406.5.
- The proposed requirements do not clearly outline what to do if confirmation from another practitioner cannot be obtained. The explanatory memorandum para 100 states that the firm will need to consider the requirements of applicable assurance standards to determine if it can proceed to use the assurance work of that practitioner. Given that different assurance standards might be applied by different practitioners, this could lead to inconsistency regarding application of section 5406. We recommend more explanation is provided by the IESBA in this regard.

**Contextual information for the Board [to be deleted from the final version of the submission]:**

The section 5406 deals with situation when another practitioner performs work on the sustainability information of the assurance client (not on the value chain entity – this scenario is in section 5407).

Another practitioner needs to be independent from the assurance client to the same extent as the assurance practitioner responsible for the assurance opinion of the sustainability information of the assurance client.

The IESBA requires that the engagement leader is responsible for the communication with another practitioner. The communication needs to include informing another practitioner about relevant ethical and independence requirements and another practitioner needs to confirm that they understand the requirements and they have complied (if the work has been performed) or will comply (if the work is yet to be performed).

- 12) Do you support the proposed definition of “value chain” in the context of sustainability assurance engagements? [See paragraphs 102 and 103 of this document]

**Response:**

We support the reference of the value chain being defined within the sustainability reporting framework applied by the assurance client because different reporting frameworks might contain different definitions. We found it useful that the examples in the reference include customers and suppliers of the assurance client.

We note the explanation that “the value chain does not include components”. However, we question whether there might be times that the information from the value chain would be so material that the sustainability assurance practitioner might need to consider their independence from the value chain in a similar manner as information from component entities in traditional reporting. See our comments to question 10.

**Contextual information for the Board [to be deleted from the final version of the submission]:**

Extract from the IESBA’s proposed Glossary:

*“The value chain is a reporting concept that is defined, described, or otherwise specified in the applicable sustainability reporting framework.*

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

*The value chain does not include components. “*

- 13) Do you support the provisions in Section 5407 addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity? [See paragraphs 104 to 110 of this document]

**Response:**

We support the independence requirements included in Section 5407.

We have received the feedback that these requirements are not written in a manner that is easy to follow. Given the length and complexity of the Code, there may be benefits in emphasizing the key principle around independence from the Value Chain to ensure that this key principle is applied consistently across different situations.

There would be benefits in clarifying the steps that a sustainability assurance practitioner should take to determine whether they know or have to reason to believe that a threat to independence exists. This could be provided by including an example of the objective and reasonably informed third party.

We consider that it would be clearer if the two sections 5407 and 5700 are merged and the reason to believe test is clearly linked to situations considered in section 5407.

**Contextual information for the Board [to be deleted from the final version of the submission]:**

Section 5407 includes independence requirements from the value chain entities depending on if the work is performed by the firm at the value chain entity, at the assurance client (when information is provided by the assurance client) or is performed by another assurance practitioner at the value chain entity.

The section requires the firm to be independent from the value chain entity if the work is performed at the value chain entity.

Similarly, the section requires another assurance practitioner to be independent from the value chain entity when they perform work at the value chain entity.

However, these requirements are written differently, it is therefore not sure if the independence requirements are different.

It is also subject to different interpretations how to link the reason to believe test to evaluate the independence from the value chain entity from section 5700 to requirements in section 5407. As

discussed during NZAuASB last meeting, we suggest bringing 5700 forward and place together with other value chain considerations.

- 14) Where a firm uses the work of a sustainability assurance practitioner who performs the assurance work at a value chain entity but retains sole responsibility for the assurance report on the sustainability information of the sustainability assurance client:
- (a) Do you agree that certain interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and a value chain entity might create threats to the firm's independence?
  - (b) If yes, do you support the approach and guidance proposed for identifying, evaluating, and addressing the threats that might be created by interests, relationships or circumstances with a value chain entity in Section 5700? What other guidance, if any, might Part 5 provide? [See paragraphs 111 to 114 of this document]

**Response:**

We agree that certain interests, relationships, or circumstances relating to a value chain entity might create threats to independence.

We consider the "reason to believe" test in section 5700 is reasonable. However, we consider that the section, as it is currently written, lacks clarity in relation to:

- How exactly to apply the reason to believe test, what should be documented to prove that the practitioner/firm considered the knowledge they have?
- That there is no expectation for an up-to date database and monitoring activities. This clarification is only included in the Explanatory Memorandum.
- It is not clear when the reason to believe test could be applied – as there is no direct link to section 5407.

- 15) The International Independence Standards in Part 5 set out requirements and application material addressing the provision of NAS by a sustainability assurance practitioner to a sustainability assurance client. Do you agree with the provisions in Section 5600 (for example, the "self-review threat prohibition," determination of materiality as a factor, and communication with TCWG)? [See paragraphs 115 and 116 of this document]

**Response:**

We support the independence requirements and application material for providing non-assurance services by assurance practitioners to an assurance client but recommend some further considerations as detailed below.

***Self-review threat prohibition is not consistently understood***

We believe that it is important to issue additional materials to educate users of the Code not familiar with writing conventions of the IESBA to address how to interpret the self-review threat prohibition. During our outreach for our domestic standard on GHG assurance, we found out that the self-review threat prohibition is not very well understood. The word "might" is not consistently considered as a very high bar by those unfamiliar with the extant Code. Some readers understand that the prohibition would apply only if the service created as self-review threat, as opposed to the consideration being a possibility of creating the threat.

There are also inconsistencies in interpreting how a self-review threat should be applied in practice. The confusion is created when IT related services are provided to the assurance client, as in many circumstances it is not obvious when the IT services might create the threat.

#### ***Transitional provision for providing non-assurance services***

The IESBA should consider adding a transitional provision to clarify that the independence requirements included in Part 5 are not applicable to non-assurance services provided for services that might be currently performed by the assurance practitioners before the proposals take effect. There may be services underway at the time the proposals become effective that are not in accordance with the proposed new independence requirements, but the practitioners who entered into those service provided them in good faith, following the independence requirements at the time. In the context of proposed Part 5, there might be implications for those assurance practitioners who currently provide non-assurance services and sustainability assurance services under Part 4b of the Code, which does not include self-review threat prohibition. The IESBA might consider adding a similar transitional provision that was adopted when NAS related revisions to the Code were adopted.

#### **Contextual information for the Board [to be deleted from the final version of the submission]:**

We are raising this point to the IESBA as our experience shows that the prohibition taken from the IESBA's Code and included into our GHG assurance standard was very confusing and not everyone interpreted it in the way: "as there is a minimal chance that the service might create a self-review threat, the service is prohibited". We have included also the most raised concerns regarding technology and service provided before the regime starts. ccc16) Subsections 5601 to 5610 address specific types of NAS. [See paragraphs 118 to 120 of this document]

- (a) Do you agree with the coverage of such services and the provisions in the Subsections?
- (b) Are there any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements?

#### **Response:**

Many of our New Zealand stakeholders perceived the section with types of NAS very long and repetitive. There have been concerns that important details might get missed by the readers (some compared it to an exercise "compare and find a difference").

We have heard questions about the tax review section, its length, complexity, and its inclusion in this standard as tax is often not assured by sustainability assurance practitioners. We support the inclusion of this section given the increase of carbon tax legislation and carbon tax preparations services in certain jurisdictions, but we would encourage the IESBA to include an example of the type of tax services that would be covered by this section to illustrate the relevance to practitioners.

There have been also questions what services would be typically provided by the sustainability assurance practitioners. As the section is currently drafted, it is orientated towards traditional financial practitioners. An example raised by non-financial assurance practitioner was, which NAS service would be used to classify a service of calculating greenhouse gas emissions factors (greenhouse gas emissions factors are used for calculating greenhouse gas emissions by organisations).

Other concerns related to technology related services other than IT services. It has been not well understood if and how other wider technology services might create threats to independence.

Finally, we are aware that practitioners outside of traditional accounting firm might have different business structures. The prohibitions relating to firms might relate to their whole organisation. The application of the Part 5 would have important implications to their business models: either withdraw

from the services provided now or to change their business models – either of them could be costly and require time to implement.

- 17) Do you agree with, or have other views regarding, the proposed approach in Part 5 to address the independence issues that could arise when the sustainability assurance practitioner also audits the client’s financial statements (with special regard to the proportion of fees for the audit and sustainability assurance engagements, and long association with the client)? [See paragraphs 123 to 131 of this document]

**Response:**

We agree that threats to fundamental principles and to independence might arise when the sustainability assurance practitioner also audits the client’s financial statements. We agree that it is especially relevant regarding fees and long association with the client.

We support the additions to Part 4A because the considerations of fees and considerations relating to long term associations should include provision of sustainability assurance services.

We support the inclusion of fees and long-term associations requirements in Part 5. However, we consider that the prescribed details especially regarding “time-on” and “cool-off” period might be too early for this developing market. Given the current global shortage of auditors, there are concerns that there might not be enough assurance practitioners if the prescribed rotation requirements would be implemented.

- 18) Do you believe that the additional guidance from a sustainability assurance perspective (including sustainability-specific examples of matters such as threats) in Chapter 1 of the ED is adequate and clear? If not, what suggestions for improvement do you have?

**Response:**

We found the sustainability specific examples appropriate. However, due to the length and complexity of the proposals, there is an urgent need for additional guidance. Our stakeholders discussed usefulness of a summary of each the section, a map how to navigate between sections, snapshots with highlights of main issues, definitions explained upfront.

The need for additional guidance has been identified in relation to:

- First time implementation guidance like (“get started”) for those who have not been applying the Code before.
- Guidance how to interpret the writing convention of the Code, for example “might” in the “self-review threat prohibition”
- How to navigate the complexity of the independence requirements relating to groups in the context of sustainability engagements and in the situations when the boundaries between components and value chain entities are blurred
- How to understand and apply independence requirements relating to value chain entities – both from another practitioner perspective and assurance practitioner perspective (adding diagrams and other navigation through the requirements). Additional explanations from Explanatory Memorandum could be incorporated into further guidance or application material in the proposal.
- Navigating independence requirements when the work of another practitioner is used and how they differ depending if the work is done on the assurance client, on a component or on the

value chain entity. Additional explanations from Explanatory Memorandum could be incorporated into further guidance or application material in the proposal.

- Adding NAS services provided typically by non-financial assurance practitioners, for example calculating of greenhouse gas emissions factors or a guidance how to classify non-financial services into the current NAS types identified in Part 5.

19) Are there any other matters you would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED?

**Response:**

Our outreach suggested that, in some instances, there is a blurred line between the Code of Ethics and assurance standards. One example is expectation, as it is explained in the Explanatory Memorandum in paragraph 100, that a firm will need to consider the requirements of applicable assurance standards to determine if it can proceed to use the assurance work of another practitioner. Some of our stakeholders suggested that this topic should be dealt with either Code of Ethics or assurance standard, not both.

20. Do you have any views on how the IESBA could approach its new strategic work stream on expanding the scope of the Code to all preparers of sustainability information? [See paragraphs 133 to 135 of this document]

**Response:**

No comment.

**Contextual information for the Board [to be deleted from the final version of the submission]:**

The scope of the Code relating to preparers of sustainability information is beyond our mandate.

21. Do you agree that the proposals in Chapter 4 of the ED are responsive to the public interest, considering the Public Interest Framework's qualitative characteristics? [See paragraph 138 of this document]

**Response:**

No comment.

**Contextual information for the Board [to be deleted from the final version of the submission]:**

The proposals in Chapter 4 include revisions to Part 1, Part 2, and Part 3 of the Code for Accountants. The aim of revisions is to maintain the Code fit for purpose and include and therefore some sustainability references are included, for example current examples are revised and new examples sustainability related are added. Overall, we find the revisions reasonable. Most of the revisions is placed in the Part 2 and relates to the preparation of sustainability information which is out of the XRB mandate. We have therefore not performed further assessment and have not evaluated them against the Public Interests Framework.

For the information purposes the revisions are included in the mark- up version (in red), page 236 onwards in this marked-up version of ED: [link](#).

22. Do you agree that the proposed revisions to Parts 1 to 3 of the extant Code in Chapter 4 of the ED are clear and adequate from a sustainability reporting perspective, including:

- (a) Proposed revisions to Section 220? [See paragraphs 139 to 141 of this document]

(b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information? [See paragraphs 143 to 153 of this document]

(c) Other proposed revisions? [See paragraph 155 of this document]

**Response:**

No comment. As these relate to the preparation of sustainability information which is outside our mandate.

**Contextual information for the Board [to be deleted from the final version of the submission]:**

The proposals in Chapter 4 include revisions to Part 1, Part 2, and Part 3 of the Code for Accountants. The aim of revisions is to maintain the Code fit for purpose and include and therefore some sustainability references are included, for example current examples are revised and new examples sustainability related are added. Overall, we find the revisions reasonable. We have not identified anything particular to comment on. Most of the revisions is placed in the Part 2 and relates to the preparation of sustainability information which is out of the XRB mandate.

For the information purposes the revisions are included in the mark-up version (in red), page 236 onwards in this marked-up version of ED: [link](#).

23. Are there any other matters you would like to raise concerning the proposals in Chapter 4 of the ED?

**Response:**

No comment.

24. Do you support the IESBA's proposal to align the effective date of the final provisions with the effective date of ISSA 5000 on the assumption that the IESBA will approve the final pronouncement by December 2024?

**Response:**

We support the alignment of the effective date with the effective date of ISSA 5000.

To increase the application of the proposed Part 5, we encourage the IESBA to:

- a) Build in transitional provisions, refer to our answer to question 15 for further details and
- b) Release a "Get Started" guide for those professions who are not familiar with the IESBA's Code of ethics.

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	5.1
<b>Meeting date:</b>	3 April 2024
<b>Subject:</b>	IESBA Using the Work of an External Expert Exposure Draft Submission Summary Paper
<b>Date prepared:</b>	20 March 2024
<b>Prepared by:</b>	Nimash Bhikha

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<input checked="" type="checkbox"/>	<b>Action Required</b>
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### Agenda Item Objective

1. This objective of this agenda item is for the Board to:
  - **APPROVE** the draft submission on the International Ethics Standards Board for Accountants (IESBA) Code of Ethics proposals related to the using the work of an external expert project, subject to an evaluation of any written submissions received: and
  - **DISCUSS** any significant issues and other matters to include in the Board’s submission during the Board Meeting.

### Background

2. The IESBA released their Use of Experts Exposure Draft with submissions due on Tuesday 30 April 2024.
3. The IESBA ED has proposed amendments to Part 2 and Part 3 of the Code related to professional accountants in business (Section 290), and professional accountants in public practice (Section 390). The proposed revisions to Part 3, which relate to professional accountants in public practice, would impact on financial auditors.
4. The ED also proposed revisions and new sections made across the new Part 5 – *Independence for Sustainability Assurance Engagements* (Section 5390) of the Code. This will impact on sustainability assurance practitioners who are required to, or voluntarily adopt, the IESBA Code.
5. The main changes proposed by the revisions are:
  - Creating a new definition of “expert” and “expertise” to focus explicitly on individuals who have expertise outside of the assurance practitioner’s competence, and linking expertise to knowledge and skills in a particular field (and not experience);

- Revising the definition “external expert” to explicitly refer to who has engaged the expert and distinguish between external experts used for an audit engagement compared to an assurance engagement; and
  - Establishing an ethical framework for assessing the competence, capability and objectivity (CCO) of external experts, which involves requesting information from the expert.
6. The proposed ethical framework requires a financial auditor, and sustainability assurance practitioner to:
- Agree the terms of engagement with an external expert and requesting specific information around the external expert’s CCO;
  - Evaluate the external expert’s CCO through the specific information provided by the external expert and consider whether this is appropriate for the assurance practitioner’s purpose;
  - Evaluate and respond to potential threats arising from using the work of an external expert by identifying, evaluating and addressing threats which may arise from using an external expert’s work; and
  - Consider other factors which may be relevant in using the work of an external expert, such as expertise in an emerging field or area, or inherent limitations in accessing information.
7. The IESBA believes that these proposals will serve the public interest as they will set a global benchmark for how to evaluate the CCO of external experts from an ethical perspective, and how to identify, evaluate and address the threats that might be created when using the work of an external expert.

### **Matters for Consideration**

8. We have prepared a draft submission which has been provided to the Board through Microsoft Teams for comment. This submission has been informed through staff analysis of the ED and feedback provided by stakeholders through in-person and virtual focus group meetings (as noted below).
9. The XRB’s mandate is limited to developing and issuing auditing and assurance standards, including ethical standards for assurance practitioners. This applies only to professional accountants in their role as assurance practitioners, and therefore our comments have focussed on the Part 3 and Part 5 revisions.

### **Summary of XRB Outreach**

10. The XRB released the IESBA’s Exposure Draft for the consultation in New Zealand on our [website](#) on 30 January 2024. We have asked our stakeholders to provide comments on the IESBA’s approach and any specific questions asked by the IESBA that might be relevant for New Zealand.
11. Our consultation period finishes on Monday 15 April 2024, to allow us to prepare the submission to the IESBA. No comments have been received as of 20 March 2024.
12. Focus group meetings were on 14 March (in-person) and 15 March (virtually) to gather feedback around whether the proposals are fit for purpose within the New Zealand context.

13. The main feedback in relation to these proposals were:

- Changes made to definition of terms are reasonable, prohibitions on not allowing use of experts who are not competent, capable and objective, is appropriate.
- The proposed ethical framework for the higher-level purposes of engaging external experts is reasonable, however, there is confusion and a lack of distinction between the proposed principles within the Exposure Draft, and the existing principles around using the work of experts contained within other existing assurance standards. There is now a large amount of duplication within the Code because of these proposals.
- The existing core principles around engaging and using the work of experts are well understood. There may be a risk of complacency with the requirements in the Exposure Draft, if assurance practitioners consider they already has established processes and believe these requirements be substantially similar.
- Some requirements within the proposals may result in large costs compared to benefits around using external experts (such as assessing the CCO of all members within the expert's team). Such requirements may incentives assurance practitioners to not engage external experts, or incorporate experts into their assurance teams, to avoid these requirements, which may create unintentional additional costs.

#### **Recommendations**

14. We recommend the Board:

- **REVIEW** and **APPROVE** the draft submission to on the IESBA Code of Ethics proposals related to the using the work of an external expert project and provide offline comments through Microsoft Teams: and
- **DISCUSS** any significant issues and other matters to include in the Board's submission during the Board Meeting.

#### **Material Presented**

- Agenda Item 5.2 – IESBA Use of Experts Issues Paper
- Agenda Item 5.3 (Supplementary) – IESBA Exposure Draft – Using the Work of an External Expert

30 April 2024

Gabriela Figueiredo Dias  
Chair  
International Ethics Standards Board for Accountants  
539 Fifth Avenue  
New York, 10017  
USA

Dear Gabriela,

### ***IESBA Using the Work of an External Expert Exposure Draft***

Thank you for the opportunity to comment on the International Ethics Standards Board for Accountants (the IESBA) Using the Work of an External Expert Exposure Draft (the Exposure Draft). We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the Exposure Draft.

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards including professional and ethical standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards, including ethical standards and standards for related services.

The NZAuASB's mandate is limited to developing and issuing auditing and assurance standards, including ethical standards for assurance practitioners. This applies to professional accountants in their role as assurance practitioners. The NZAuASB supports the IESBA's objective to set high-quality, international ethics standards as a cornerstone to:

- ethical behaviour in business and organisations, and
- public trust in financial and non-financial information that is fundamental to the functioning and sustainability of organisations, financial markets, and economies worldwide.

The NZAuASB consider that the overall nature of the proposals is reasonable, and the approach followed by the IESBA in developing these revisions is appropriate. In particular, we consider the revised definitions are reasonable, and generally are responsive to the public interest expectations around using experts in the provision of high-quality assurance services. However, we are concerned that there is a lack of distinction between the proposed principles within the Exposure Draft, and the existing principles around using the work of external experts contained within other existing assurance standards, such as the International Auditing and Assurance Standards Board's (IAASB's) Auditing Standards.

The NZAuASB also consider the ethical framework established around using experts is principles-based and follows established frameworks used in other areas of the IESBA Code of Ethics (the Code); and that many of the revisions are pragmatic for the use of experts across multiple fields and types of assurance engagements. However, we note that the existing principles around engaging and using the work of experts contained in other standards are well understood and implemented across varying assurance engagements. We believe there may be a risk of complacency with the requirements in the Exposure Draft, if assurance practitioners consider they already have established processes and believe these requirements be substantially similar.

We encourage the IESBA to consider how it can best explain the intention of the requirements within the Exposure Draft, the key changes elements of the new principles and requirements and explain how these work in conjunction with the existing requirements around using the work of experts contained within the auditing and assurance standards. We also encourage the IESBA to consider whether the detailed requirements, and duplication with other sections of the Code, can be removed in order for the core ethical principles to be emphasised.

We have also identified certain issues within specific sections of the proposed revisions which we have outlined below, to ensure the Code provides an appropriate ethical framework for the use of external experts. In particular, we encourage the IESBA to reflect upon whether the requirements provide sufficient clarity around the level of work effort expected when engaging an external expert, across financial assurance and sustainability assurance engagements, and whether the expected costs of compliance with these principles may incentivise assurance practitioners to not engage external experts where they would otherwise have been used.

Our responses to specific questions in the Exposure Draft are set out in Appendix A. Should you have any queries concerning our submission please contact either myself at the address details provided below or Nimash Bhikha ([nimash.bhikha@xrb.govt.nz](mailto:nimash.bhikha@xrb.govt.nz)).

Yours sincerely,

**Marje Russ**  
**Chair – NZAuASB**  
Email: [mruss@tonkintaylor.co.nz](mailto:mruss@tonkintaylor.co.nz)

## Submission of the New Zealand Auditing and Assurance Standards Board

### Appendix A: Responses to Using the Work of an External Expert Exposure Draft Questions

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

**Response:**

Yes. We support the proposals set out in the glossary for the proposed new definitions of 'experts' and 'expertise' and the revised definition of 'external expert'.

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

**Response:**

Yes. Overall, we support the approach within the Exposure Draft regarding evaluating an external expert's competence, capabilities and objectivity. We comment on some fundamental considerations below:

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

Section R390.6 and R5390.6 note that the PA/SAP (Professional Accountant/Sustainability Assurance Practitioner) shall evaluate whether the external expert has the necessary competence, capabilities and objectivity for the PA/SAP's purpose. Section R390.8 and R5390.8 note that the PA/SAP shall request the external expert to provide various information, in relation to the entity at which the external expert is performing the work and with respect to the period covered by the assurance report and the engagement period..

We recognise the IESBA's proposal that if an external expert is not objective, the work of such expert cannot be used in any professional service or activity. We acknowledge that limitations in the availability of experts are a matter of timing, as the market capacity will gradually adjust to meet the demand. We do note that many external experts work in well-established industries and are subject to professional and ethical processes in their own fields, which require them to consider conflicts of interest and implement safeguards and processes to maintain their own objectivity.

Under the Exposure Draft, it is not explicit that a PA/SAP should consider the specific context of an external expert's competence and capabilities and evaluate whether the external expert's competence would be appropriate for the unique circumstances of each engagement. This may encourage a PA/SAP to engage any competent external expert, rather than the "right" external expert for the engagement. This will be particularly important in sustainability assurance engagements, where competence in a specific field still may not allow for an external expert to provide an appropriate conclusion on unique matters (for example: cultural experts dealing with cultural-related matters in cultures they are not familiar in).

The Exposure Draft does not require the PA/SAP to consider whether there are any safeguards or mitigations which the external expert may have put in place around potential objectivity threats if required under their own professional and ethical obligations, as there are no requirements for the PA/SAP to request this information from the external expert.

We encourage the IESBA to consider whether the proposals sufficiently allow for PA/SAPs to consider the underlying nature, context and local conditions of the work to be performed on each assurance engagement,

and to evaluate an external expert's CCO in that specific context, to guide PAs/SAPs to evaluate whether the "right" external expert is used for the specific assurance engagement.

We also encourage the IESBA to require a PA/SAP to request further information from external experts around safeguards or mitigations which the external expert may have put in place around potential objectivity threats if they were required to under their own professional and ethical obligations within their field. This will allow for PAs/SAPs to perform a more informed their assessment of objectivity threats.

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

**Response:**

Yes. We agree with the Exposure Draft's proposal that if an external expert is not competent, capable or objective, then their work cannot be used by the PA/SAP

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

Section 390.19 A1 5390.19 A1 notes that paragraph R113.3 and R5113.3 respectively set out communication responsibilities for the PA/SAP with respect to limitations inherent in the PA/SAP's professional services. When using the work of an external expert, such communication might be especially relevant when there is a lack of information to evaluate the external expert's competence, capabilities or objectivity, and there is no available alternative to that external expert.

The proposed requirements, as worded, may conflict and cause confusion with other requirements, such as R390.12 and R5390.12, which notes the PA/SAP shall not use the work of the external expert if the practitioner is unable to obtain the information needed for the PA/SAP's evaluation of the external expert's competence, capabilities and objectivity. It is unclear why the proposed requirements suggest that the communication of limitations around evaluating an external expert's competence, capabilities or objectivity would be relevant when there is a lack of information to evaluate the external expert's competence, capabilities or objectivity, and there is no available alternative to that external expert.

We encourage the IESBA to clarify these requirements to explain that the communication of limitations inherent in the practitioner's professional services are important to allow for external experts and sustainability assurance practitioners to understand and confirm their respective responsibilities, however, this is not a substitute to engaging an expert when there is a lack of information to evaluate the external expert's CCO.

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

**Response:**

Yes. Overall, we support the additional provisions relating to evaluating an external expert's objectivity introduce an appropriate level of rigor to address the heightened public interest expectations concerning external experts in the use of financial audit and sustainability assurance engagements. Our comments on specific provisions are set out below.

*Evaluating All Individuals within an External Expert's Team*

Section R390.9 and R5390.9 note that where the external expert uses a team to carry out the work, the PA/SAP shall request all members of the external expert's team to provide the information set out in paragraph R390.8 and R5390.8 respectively to allow for the CCO for all individuals in an external experts team to be evaluated.

While we support the IESBA's intention and responsiveness to stakeholders heightened expectations concerning the external expert and any supporting team, there may be several practical issues with these requirements, depending upon the type of external experts' teams which are used. These include:

- Whether an external expert's team extends to sub-contractors, quality reviewers or peer reviewers which may be used by an external expert, or consultations which are performed by the external expert with other external experts.
- If team members within an external expert's team change during the external expert's engagement, whether the intention of the requirements is for an assurance practitioner to assess the objectivity of previous work performed by the external expert who has left the external expert's organisation; and
- Whether the assurance practitioner would need to agree the external expert's team members through the engagement letter, to ensure completeness of considerations around who has been involved in performing the external expert's work.

We heard concerns around requiring the PA/SAP to evaluate the CCO of all individuals within an external expert's team, compared to assessing the CCO of the individuals who have the ultimate responsibility and accountability within the expert's team for the provision of expert services. Given the increasingly complex nature of some matters, the external experts' team may be large, and in some instances may be bigger than the assurance team itself. This may result in disproportionate costs compared to the resulting benefits and may be impractical for smaller assurance practitioners.

If the PA/SAP is required to assess the CCO of all members of large expert teams, this may disincentivise PA/SAPs from using external experts as the perceived costs could be high and may outweigh the expected benefits. The PA/SAP may also look to engage external experts as direct members of the assurance team, as this process could be less onerous. This may have significant unintended costs in complying with independence and documentation requirements of other assurance standards and impacts on the assurance conclusion. The PA/SAP may also require the assurance client to engage the external expert, as a management expert, to shift the costs onto the client.

We encourage the IESBA to reflect on the costs and benefits created through requiring the PA/SAP to assess all members within an expert's team. The same principles around using the work of an external expert could be achieved through evaluating the CCO of individuals who have responsibility and accountability within the expert's team for the provision of expert services, and the ability to significantly influence the expert's conclusions, rather than all individuals within the expert's team.

#### *Experts Performing Work not at the Client/Sustainability Assurance Client*

Section R390.11 and R5390.11 note that where the client is not the entity at which the external expert is performing the work, the PA/SAP shall also request the external expert to disclose, in relation to the period covered by the assurance report and the engagement period, information about interests, relationships or circumstances of which they are aware between the external expert, their immediate family or the external expert's employing organisation and the client.

The proposed requirements do not make it clear whether this is intended to cover services provided by external experts to other entities within an assurance client's value chain, nor which party engages the external expert. From the proposed requirements, it is unclear whether this would include experts engaged by the PA/SAP for

services to their assurance client, but performed at another entity, or whether it would include experts engaged by another entity for their own purposes but subsequently being relied upon by a PA/SAP.

Given the nature of some sustainability matters where information sources from entities within the value chain may be needed to arrive at a reliable estimate, there is a potential risk for external experts to have conflicts through services provided to other entities, rather than the assurance client directly. The draft requirements do not explain the scope of when these requests from external experts should be made.

We encourage the IESBA clarify the requirements around external experts performing work at other entities to explain what requirements would be applicable when an external expert is engaged by a sustainability assurance practitioner for services to their assurance client, but the work is performed at another entity, compared to experts engaged by another entity for their own purposes, but is subsequently being relied upon by a PA/SAP.

#### Factors that are Relevant in Evaluating Threats

Section 390.15 A1 and 5390.15 A1 note factors that are relevant in evaluating the level of threats to an external expert's CCO, and includes whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.

It is not clear through the Exposure Draft how the IESBA envisioned a PA/SAP would be able to consider whether the external expert's work if it were to be performed by two or more parties would not likely be materially different. In some situations, this would require the PA/SAP to engage another external expert, which may be difficult where expertise is limited. The proposed requirements appear to allow for speculation by the PA/SAP around the conclusions another external expert would arrive at.

We encourage the IESBA provide additional clarity around how a PA/SAP could evaluate threats by considering whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different, and to reinforce that this should not rely on the PA/SAP's uninformed speculation and does not necessarily require engaging another external expert.

#### Using the Work of Multiple External Experts

Section R390.18 and R5390.18 notes that when a PA/SAP uses the work of more than one external expert in the performance of a professional service, the PA/SAP shall consider whether, in addition to the threats that might be created by using each external expert individually, the combined effect of using the work of the external experts might create additional threats or impact the level of threats.

The proposed requirements do not provide any examples of the additional threats, or an increased level of threats created through the combined effect of using the work of multiple experts. This could cause confusion, given the inherent perspective of engaging multiple experts would be a safeguard to objectivity threats, like familiarity and self-review.

We encourage the IESBA include examples to demonstrate threats created through the combined effect of using the work of the external experts, such as multiple experts having existing relationships with each other, in order to reinforce the matters that the PA/SAP should consider under this proposed requirement.

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

**Response:**

Yes. We support the provisions included in the Exposure Draft that guide the PA/SAP in applying the conceptual framework when using the work of an external expert.

## 6) Other Matters

### Response:

#### General Requirements & Definitions

Section 390.6 A1 and 5390.6 A1 notes that a self-interest, self-review or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if a PA/SAP uses an external expert who does not have the competence, capabilities or objectivity to deliver the work needed for the particular professional service.

It is unclear how a PA/SAP, who may utilise an expert who does not have the competence, capabilities or objectivity to deliver the work needed for the particular professional service, could result in a self-review threat. Given engaging another external party would inherently help address potential self-review threats, it is unclear what possible self-review threats were envisioned by the IESBA to be considered by the PA/SAP.

The nature of potential self-review threats is made more unclear by sections 390.14 A1 and 5390.14 A1 which do not note any examples around self-review threats when considering the use of experts, but only includes self-interest threats, advocacy threats, familiarity threats and intimidation threats.

We encourage the IESBA consider providing an example of self-review threats created through the use of an external expert in order to avoid confusion around the intention of this category of threats.

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

- **Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs) – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.**

### Response:

No comments by the NZAuASB.

- **Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.**

### Response:

No comments by the NZAuASB.

- **Sustainability Assurance Practitioners Other than Professional Accountants – The IESBA invites comments on the clarity, understandability and usability of the proposals from SAPs outside of the accountancy profession who perform sustainability assurance engagements addressed in the proposed Part 5 of the Code.**

### Response:

As part of our communications with New Zealand stakeholders, we performed an exercise to summarise the requirements of the Code in order to assist practitioners other than professional accountants to understand the key principles and objectives of the Code and the changes within the Exposure Draft.

We recommend the IESBA do a similar exercise, as part of its implementation process, to help individuals who are not familiar with the Code be able to approach the Code in an appropriate manner.

- **Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.**

**Response:**

No comments by the NZAuASB.

- **Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.**

**Response:**

No comments by the NZAuASB.

DRAFT

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	6.1
<b>Meeting date:</b>	3 April 2024
<b>Subject:</b>	Review of Service Performance Information
<b>Date:</b>	12 March 2024
<b>Prepared By:</b>	Lisa Thomas

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

1. The objective of this agenda item is to:
  - a. CONSIDER changes to the developing exposure draft since the February meeting;
  - b. CONSIDER key issues under deliberation by the IAASB on sustainability assurance on limited assurance and the implications for the XRB's consultations;
  - c. APPROVE the exposure draft and consultation document for the review standard for service performance information.

### Background

2. At the NZAuASB February 2024 meeting, the main points discussed included:
  - a. The importance of there being a difference in reaching a limited assurance conclusion to avoid "over auditing".
  - b. The importance of the assurance practitioner to firstly use their understanding of the entity to be comfortable with the service performance information reported and how it will be measured before identifying any material misstatements.
  - c. The key difference between an audit and a review is the verification effort to identify any material misstatements between the service performance information reported and the actual service performance.

It was agreed that an appropriate way to communicate these messages and to set the context of a limited assurance engagement, was to include them upfront in the standard in the objective paragraph.

3. In addition, staff were to consider whether the complexity of measures reported by tier 3 charities warranted specific requirements and application material for work performed by other practitioners and experts.

### Matters to Consider

#### *Exposure Draft – introduction and objective*

4. The introduction and objective paragraphs have been updated to reflect the points raised above at the February 2024 meeting. The introduction emphasises the importance of the practitioner pausing, and using their understanding of the entity to firstly determine if the information is

appropriate and meaningful. Additional application material has been added at paragraphs A1 and A2 to explain why this step is important, and that unless the service performance information is appropriate and meaningful, there is no rational purpose and therefore no reason to collect evidence that the service performance reflects actual performance.

5. The objective has been stripped back to a clear message that the engagement is a limited assurance engagement and the level of work effort expected to determine if the information is materially misstated. A misstatement is defined in the standard as including the service performance information not being appropriate and meaningful.

*Exposure Draft – work performed by others*

6. Staff reviewed a sample of tier 3 charities performance reports and observed that the types of measures reported were not complex. Based on this, staff no longer recommend it is necessary to include a requirement and application material to consider the adequacy of the other practitioner or experts work. If an expert or other practitioner was required, then the requirements of ISRE (NZ) 2400 could be applied to service performance information.

### **Considerations of developments in ED-5000 General Requirements for Sustainability Assurance**

#### **Engagements**

7. The IAASB will discuss requirements relative to limited assurance at its March IAASB meeting. We are tracking these with interest as the IAASB seek to clarify and raise the bar on requirements for limited assurance engagements over non-financial information. Key recommendations by the task force for a limited assurance engagement include:
  - a. Requiring the practitioner to perform risk assessment procedures to identify and assess the risk of material misstatement for the disclosures (but not at the assertion level for disclosures as is required for reasonable assurance) as a basis for designing and performing further procedures. The requirements for risk procedures and the related application material would be amended to align with the approach for a risk assessment and to clarify the “spectrum of inherent risk”.
  - b. Requiring the practitioner to obtain an understanding of all components of the system of internal controls through enquiry.
8. The IAASB is considering many of the issues the NZAuASB has debated about the breadth and depth of understanding required for a limited assurance engagement, and the importance of a risk-based approach tailored for limited assurance.
9. These developments, if agreed to, would require the practitioner to “lift the bar” on limited assurance over non-financial information.
10. Reflecting on the discussions by the NZAuASB and the paper prepared by the IAASB, we have included some additional context in the draft consultation paper to enable us to consult and engage on what is appropriate for a review engagement of service performance information undertaken as a holistic engagement with the review of financial statement information for tier three charities in New Zealand.

#### **Consultation Document**

11. The draft consultation document has been developed based on key issues that have been discussed throughout the development of the exposure draft.

**Recommendations**

12. We recommend that the Board APPROVE the exposure draft and consultation document for issue and exposure for a 90-day consultation period.

**Material Presented**

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Draft consultation paper
Agenda item 6.3	Draft exposure draft



## 1.

### What are we consulting on?

There is a statutory requirement for some entities<sup>1</sup> to have either an audit or a review of their performance report. The performance report includes service performance information together with financial information.

Currently requirements are split between the standard for review engagements and the assurance standard for non-financial information. The review engagement standards currently issued by the XRB address the historical financial information however there is currently no review standard specifically for service performance information. Assurance practitioners have been undertaking reviews of service performance information using EG Au 9 *Guidance on the Audit or Review of the Performance Report of Tier 3 Not-For-Profit Public Benefit Entities* and ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

While EG Au9 has provided useful guidance, now that an auditing standard for service performance information has been issued, it is a good time to develop a review standard for service performance information that specifically addresses the review of service performance information.

Applied concurrently with the review standard for financial information, the two standards will work together as a package when reviewing general purpose financial reports containing both financial and service performance information. Once mandatory, ISAE (NZ) 3000 (Revised) would no longer be applicable for review engagements of service performance information.

The benefits of having a specific review standard for service performance information include:

- An integrated approach to review general purpose financial reports that contain both the financial and non-financial information.
- Addresses how assurance concepts may differ to a financial statement review engagement.
- adoption of language and concepts used in the financial reporting and auditing requirements for service performance information to promote consistency and coherence.

## 2. How can you contribute?

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

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues, that are relevant to you.

We will put all written submissions on our website unless requested otherwise, and we reserve the right not to publish defamatory submissions. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or full. The Privacy Act 2020 also applies.

**Commented [LT1]:** Once this document is transferred to Consultation Comms template, this section will include more detail on channels to provide feedback and dates due etc

<sup>1</sup> Charities with total operating expenditure in the 2 preceding accounting periods between \$550k and \$1.1 million (Charities Act 2005, section 42C-42D)

### 3. When is a review of service performance information required?

The Financial Reporting Act 2013 defines financial statements as the statements of an entity as at a balance date, or in relation to the accounting period ending at the balance date, that are required to be prepared in respect of that entity by an applicable financial reporting standard or non-GAAP standard.<sup>2</sup> Therefore, statutory reviews of financial statements for charities with total operating expenditure between \$550,000 and \$1.1m will include the statement of service performance.

Under the Charities Act 2005<sup>3</sup>, charities with total operating expenditure between \$550,000 and \$1.1million are required to have either an audit or review of their financial statements. Charities of this size report in accordance with tier 3 reporting requirements<sup>4</sup> which requires the performance report to include a statement of service performance information.

### 4. Overview of the proposed standard

A review of service performance information should be conducted concurrently with the review of financial information. Therefore, the proposed domestic standard would be applied in conjunction with the review standard for historical financial statements (ISRE (NZ) 2400).

The proposed standard addresses areas of the assurance process that are particularly relevant for service performance information and/or when the nature of service performance information may require a different approach to financial information. There is emphasis for the assurance practitioner to pause to consider how the nature of service performance information may require a different approach.

The proposed standard is principles-based and framework-neutral. We expect the main audience to be those who are engaged to review tier 3 charities. We have therefore developed the standard with these types of entities in mind. When considering what to include or exclude from the standard we have focused on the needs of the assurance practitioner completing an engagement for tier 3 charities.

For example, based on a sample of tier 3 charities service performance reports, we observed that the types of measures reported were not complex, and therefore it is unlikely that the assurance practitioner would use the work of an expert. If an expert was required, then the requirements for experts in ISRE (NZ) 2400 could be applied to service performance information and therefore we have not included anything more in the proposals related to use of experts for service performance information.

To develop the exposure draft, we applied learnings from the recently revised auditing standard for service performance information. This includes adopting the term “appropriate and meaningful” from the financial reporting requirements. The assessment of whether the service performance information is “appropriate and meaningful” considers similar qualitative characteristics to assessing the suitability of criteria for assurance engagements. However, we felt that using the term “appropriate and meaningful” for this phase of the engagement across both engagement types (limited and reasonable assurance) would provide consistency for the assurance practitioner to leverage off their knowledge when assuring service performance information. The term “appropriate and meaningful” is also used in the recently revised in the Tier 3 Not-for-Profit and

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<sup>2</sup> Financial Reporting Act 2013, section 6(a)

<sup>3</sup> Charities Act 2005, section 42C-42D

<sup>4</sup> External Reporting Board Accounting Standard *Reporting Requirements for Tier 3 Not-For-Profit Entities*

Public Sector requirements<sup>5</sup> so there will be consistency and coherence between the accounting and review standards to help ensure the system works efficiently and effectively.

We applied the same “two-step approach” when reviewing service performance information as is required for an audit of this information. This requires the assurance practitioner to pause, understand the entity through positive enquiry and use that understanding to firstly consider whether the service performance information is appropriate and meaningful, prior to obtaining evidence that the service performance information fairly reflects the actual service performance.

We also considered the work effort required for a review and how it may differ to an audit of service performance information. We were mindful of the need to be able to assist assurance practitioners to understand what they need to do differently and to be clear this is a limited assurance engagement. Where the work effort was similar to an audit, the requirements were adapted from NZ AS 1 (Revised) to promote consistency.

## 5. Key issues for feedback

Limited assurance covers a spectrum of assurance, from assurance that is likely to enhance the intended users’ confidence to a degree that is clearly more than inconsequential, to assurance that is just below reasonable assurance.<sup>6</sup>

We considered each stage of a review engagement to compare and contrast to an audit of service performance information. Our observations are summarised in the table below, keeping in mind that it is a matter of professional judgement as to how to meet the objective to obtain limited assurance, depending on the context of the engagement and what comes to the attention of the assurance practitioner throughout the engagement.

<i>Engagement stages</i>	<i>Comparison to an audit</i>
Understanding	SIMILAR
Planning	SIMILAR
Assessment of appropriate and meaningful	DIFFERENT
Materiality	SIMILAR
Risk assessment	DIFFERENT
Response to assessed risks	DIFFERENT
Reporting	DIFFERENT

### *Understanding*

The proposals require the assurance practitioner to obtain an understanding of the entity, applicable laws and regulations, the service performance information reported and the systems of internal control (Para 16 -19). We considered what breadth and depth of understanding may be appropriate for a review engagement, and whether less depth may be necessary than for an audit. On balance however, with exception of internal controls, we propose that the level of understanding needed about the entity is the same regardless of the level of assurance being provided. Therefore,

<sup>5</sup> Reporting Requirements for Tier 3 Not-For-Profit Entities and Reporting Requirements for Tier 3 Public Sector Entities

<sup>6</sup> Appendix 3, Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements

the requirements proposed for obtaining an understanding at paragraphs 16 to 18 are the same as those in the auditing standard NZ AS 1 (Revised). The level of understanding required for internal controls, has been aligned with ISRE (NZ) 2400 (Para 19).

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

#### *Planning*

The proposed requirements for planning include the development of a review plan to concurrently cover the service performance information and financial information irrespective of the level of assurance being provided. This reflects the integrated nature of the engagement and recognises the inextricable link between the service performance information and the financial statements of the entity. (Para 20-23)

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

#### *Assessment of Appropriate and Meaningful*

An important first step is for the assurance practitioner to use their understanding of the entity to consider whether the service performance information is appropriate and meaningful. The factors to be considered by the assurance practitioner when exercising professional judgement to make this assessment are the same as those in an audit. To tailor this requirement for a review engagement, paragraph 24 requires the assurance practitioner to “consider” the factors rather than to “evaluate” the factors as required by the auditing standard. It is intended that these terms represent a difference in work effort for a review compared to an audit. This difference in work effort is also indicated in the application material at paragraph A27, where it is acknowledged that enquiry may be a principal source of evidence of this assessment for a review.

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

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

#### *Materiality*

Materiality is an area that requires the assurance practitioner to exercise significant professional judgement when assuring service performance information. Those judgements are made on the information needs of the intended user and purpose and not affected by the level of assurance.

The standard includes factors at paragraph 25 to 27, for the assurance practitioner to consider when exercising professional judgement to determine materiality. The proposed requirements also include the areas where materiality needs to be considered in an engagement for service performance information such as:

- identifying significant elements/aspects of service performance information (paragraph 25)
- determining and documenting materiality considerations (paragraph 26)
- applying materiality to assess whether the service performance information is appropriate and meaningful, and (paragraph 27)
- applying materiality to misstatements identified. (paragraph 27)

These requirements are similar to those required in the revised auditing standard, on the basis that materiality judgements do not differ based on the level of assurance.

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

#### *Risk Assessment*

We propose that the assurance practitioner is required to use their understanding of the entity to identify where areas of material misstatement are likely to arise to provide a basis for designing procedures (ref: paragraph 30).

An alternative view is that the assurance practitioner would be required to identify and assess risks of material misstatement at the disclosure level. Whilst both are a risk-based approach, the difference is in the nature and application. Identifying where misstatements are likely to arise is simpler in terms of performance and documentation. Whereas, identifying and assessing risks can provide greater clarity and consistency in the work effort for a review engagement.

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

#### *Response to Assessed Risk*

We believe that this is the key area of difference in work effort between an audit and review of service performance information. As such, we propose that for a review of service performance information, procedures to obtain sufficient appropriate evidence are mostly restricted to enquiry, analytical, and other procedures as the assurance practitioner considers necessary. The inclusion of “other procedures” is due to the nature of service performance information often being qualitative, therefore performing enquiry and analytical procedures may not always be practical or provide appropriate evidence.

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

#### *Reporting*

We believe that the assurance practitioner’s assessment of whether the information is appropriate and meaningful is a crucial step in the engagement of service performance information and should form part of the conclusion. If the entity’s approach does not provide a reasonable basis for the service performance information, then there is no value in gathering evidence to support a conclusion.

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

*Application date*

We propose that the standard is applicable for review engagements of service performance for periods beginning 12 months following the issue of the standard. We consider that this will allow sufficient time for preparation to implement the standard.

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

*Other comments*

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

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

## NEW ZEALAND STANDARD ON REVIEW ENGAGEMENTS 1

Review of Service Performance Information (NZ SRE 1)

### Commencement and application

[Content to be added]

### History of Amendments

[Content to be added]

### Introduction

1. Service performance information is information about what the entity has done and achieved during the reporting period in working towards its broader aims and objectives, together with supporting contextual information, when applicable, about why an entity exists, what it intends to achieve and how it goes about this, prepared in accordance with the applicable financial reporting framework. ~~(Ref: Para. A1)~~
2. To obtain limited assurance over service performance information requires a different approach than may be used for the financial information-. This NZ SRE -emphasizes the need to pause, understand the entity and uses that understanding -to discuss with management whether the entity's approach provides a reasonable basis for the service performance information and is expected to result in appropriate and meaningful reporting, prior to obtaining evidence that the service performance information fairly reflects the actual service performance. The engagement would lack a rational purpose if the information selected were not appropriate and meaningful. (Ref: Para. A1-A2)

### Scope of this NZ SRE

- ~~4-3.~~ This New Zealand Standard on Review Engagements (NZ SRE) deals with the assurance practitioner's responsibilities with respect to service performance information when an assurance practitioner is engaged to perform a review of service performance information concurrently with a review of the financial statements.
- ~~2-4.~~ This NZ SRE establishes requirements and provides guidance not addressed by International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400<sup>1</sup> with respect to service performance information.
- ~~3-5.~~ This standard together with ISRE (NZ) 2400 sets out the requirements to obtain limited assurance over service performance information.
- ~~4-6.~~ This NZ SRE applies when the assurance practitioner is required by law or regulation or is otherwise engaged to review both the financial statements and the service performance information prepared in accordance with the applicable financial reporting framework. (Ref: Para. ~~A2~~A3)

### Objective

- ~~5. The objective of the assurance practitioner is to obtain limited assurance to express a conclusion on the service performance information on whether anything has come to the assurance practitioner's attention that causes them to believe that the service~~

<sup>1</sup> ISRE (NZ) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*

~~performance information does not present fairly<sup>2</sup>, in all material respects, in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.~~

~~7. The objectives of the assurance practitioner are to:~~

- ~~(a) obtain limited assurance, primarily by performing enquiry, analytical procedures, and, as the assurance practitioner considers necessary in the circumstances, other procedures, about whether the service performance information individually or collectively is free from material misstatement.~~
- ~~(b) express a limited assurance conclusion in a written report, and~~
- ~~(c) to communicate further as required by this NZ SRE.~~

~~6. The assurance practitioner may achieve the objective of this NZ SRE by considering the following two steps:~~

- ~~(a) Whether each of the following aspects of the service performance information appears to be appropriate and meaningful in accordance with the applicable financial reporting framework: (Ref: Para. A3)~~
  - ~~• The elements/aspects of service performance that the entity has selected to report on.~~
  - ~~• The performance measures and/or descriptions the entity has used to report on what it has done in relation to those elements/aspects of service performance during the reporting period.~~
  - ~~• The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description.~~
- ~~(b) Whether anything has come to the assurance practitioner's attention that causes them to believe that the reported service performance information does not present fairly, in all material respects, the actual service performance.~~

## Definitions

~~7.8.~~ For the purposes of this NZ SRE, the following terms have the meanings attributed below:

- (a) **Misstatement** – Misstatements can be intentional or unintentional, qualitative, or quantitative, and include omissions. Misstatements can arise from error or fraud when:
  - (i) An element/aspect of service performance or performance measure and/or description, or a measurement basis or evaluation method is not appropriate and meaningful; or
  - (ii) An element/aspect of service performance or performance measure and/or description that would be appropriate and meaningful is omitted; or
  - (iii) Incorrectly measuring or evaluating the entity's service performance.

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<sup>2</sup> ~~When the service performance information is prepared in accordance with a compliance framework, the assurance practitioner is not required to evaluate whether the service performance information achieves fair presentation.~~

- (b) **Management's expert** – An individual or organisation possessing expertise in a field other than accounting or assurance, whose work in that field is used by the entity to assist the entity in preparing the service performance information.
- (c) **Service organisation** – A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are part of those entities' information systems relevant to reporting service performance information.

## Requirements

### General Requirements

#### *Conducting an Engagement in Accordance with this NZ SRE*

- ~~8.9.~~ The assurance practitioner shall apply ISRE (NZ) 2400 and this NZ SRE when reviewing service performance information. (Ref: Para. A4)
- ~~9.10.~~ The practitioner shall have an understanding of the entire text of this NZ SRE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.
- ~~10.11.~~ The assurance practitioner shall not represent compliance with this NZ SRE unless the assurance practitioner has complied with the requirements of both this NZ SRE and ISRE (NZ) 2400 in relation to the review of service performance information.

#### *Professional Judgement and Professional Scepticism*

- ~~11.12.~~ The assurance practitioner shall plan and perform the review of service performance information by exercising professional judgement and with an attitude of professional scepticism. (Ref: Para. A5)

### Documentation

- ~~12.13.~~ The assurance practitioner shall document the nature, timing and extent of the procedures performed to comply with this NZ SRE and ISRE (NZ) 2400.
- ~~13.14.~~ The documentation shall include:
  - (a) Significant professional judgements made in procedures performed, the evidence obtained, and conclusions reached. (Ref: Para. A6)
  - (b) As far as possible, evidence of relevant relationships between the service performance information and the financial statements.

### Agreeing the terms of the engagement

- ~~14.15.~~ The terms of engagement shall include: (Ref: Para. A7-~~A9~~[A10](#))
  - (a) The responsibilities of the assurance practitioner with respect to the service performance information is to express a conclusion on the service performance information on whether anything has come to the assurance practitioner's attention that causes them to believe:
    - that the service performance information does not present fairly, in all material respects; in that the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods,  
in accordance with the applicable financial reporting framework.

- (b) The responsibilities of management or those charged with governance, as appropriate, including that they acknowledge and understand their responsibility on behalf of the entity for:
  - (i) The selection of elements/aspects of service performance information, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in accordance with the applicable financial reporting framework;
  - (ii) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;
  - (iii) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework; and
  - (iv) Such internal control as management or those charged with governance, as appropriate, determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.

### **The Assurance Practitioner's Understanding**

#### *Understanding the Entity*

45-16. The assurance practitioner shall obtain an understanding of: (Ref: Para. A10A11)

- (a) Why the entity exists and what it intends to achieve i.e., its purpose or objective.
- (b) What activities or services the entity performs.
- (c) Who the entity aims to serve i.e., the entity's primary stakeholders and the primary users of the service performance report.
- (d) What is considered important to those stakeholders and users and what they may use the service performance information for.

#### *Understanding Laws and Regulations*

46-17. The assurance practitioner shall obtain an understanding of: (Ref: Para. A11A12-A13A14)

- (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, and laws and regulations that specify the form, content, preparation, publication, and review of service performance information; and
- (b) How the entity is complying with that framework.

#### *Understanding the Service Performance Information Reported*

47-18. The assurance practitioner shall obtain an understanding of: (Ref: Para. A14A15-A17A18)

- (a) The applicable financial reporting framework relevant to the service performance information.

- (b) The process, including the rationale and logic the entity undertook to determine what elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods and, if applicable, judgements to report.
- (c) The process the entity undertook to identify the intended users of the service performance information and the level of engagement with the intended users.
- (d) The measurement bases or evaluation methods used by the entity to assess the performance measures and/or descriptions and how these are made available to intended users.
- (e) Changes to the elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods used to report its service performance compared to prior year, planned, forecast or prospective information.
- (f) Where the entity intends to report its service performance information.

*Understanding of Internal Control*

48-19. The practitioner shall obtain an understanding of internal control, over the preparation of the service performance information. (Ref: Para. [A18A19-A19A20](#))

**Planning**

49-20. The assurance practitioner shall develop a review plan with a single review approach to concurrently cover the service performance information and the financial statements. (Ref: Para. [A20A21-A22A23](#))

20-21. In establishing the review plan, the assurance practitioner shall:

- (a) Consider the factors that, in the assurance practitioner's professional judgement, are significant in directing the engagement team's efforts in respect of the review of service performance information.
- (b) Determine the timing of when to consider whether the entity's service performance information is appropriate and meaningful.
- (c) Determine whether expertise in a field other than accounting or assurance may be necessary regarding the service performance information. (Ref: Para. [A55A57-A56](#))

24-22. The assurance practitioner shall discuss with management or those charged with governance, as appropriate:

- (a) What elements/aspects of service performance and performance measures and/or descriptions the entity intends to report as part of its service performance information.
- (b) What measurement bases or evaluation methods the entity intends to use to measure or evaluate its performance.

22-23. Any concerns identified shall then be communicated to management or as appropriate, those charged with governance as soon as practicable.

## Compliance With the Applicable Financial Reporting Framework

### *Appropriate and Meaningful*

23-24. The assurance practitioner shall consider whether the service performance information: (Ref: Para. A6, ~~A23A24-A25A27~~, ~~A32A34~~)

- (a) Fairly reflects the assurance practitioner's understanding of the entity's performance from all other review work performed on the engagement. (Ref: Para. ~~A26A28~~)
- (b) Is likely to meet the needs of the intended user to enable an informed assessment of the entity's service performance. (Ref: Para. ~~A27A29-A28A30~~)
- (c) Relates to an element/aspect of service performance that significantly contributes to the entity's core purpose, functions or objectives. (Ref: Para. ~~A29A31~~)
- (d) Is likely to be sufficient appropriate evidence to support the performance measure and/or description.
- (e) Is capable of measurement or evaluation in a consistent manner from period to period. (Ref: Para. ~~A30A32-A34A33~~)
- (f) Is presented in a way that is easy to follow, concise, logical and aggregated where appropriate so that it will enable a user to identify the main points of the entity's service performance in that year.

### **Materiality**

24-25. The assurance practitioner shall use the understanding gained in paragraphs 16-19 to determine the significant elements/aspects of service performance. (Ref: Para. ~~A33A35-A34A36~~)

25-26. The assurance practitioner shall determine and document materiality considerations and/or materiality for service performance information to determine the: (Ref: Para. A6, ~~A35A37-A4038~~)

- (a) Nature, timing and extent of review procedures; and
- (b) Assurance practitioner's tolerance for misstatement in relation to material service performance measures and/or descriptions.

26-27. The assurance practitioner shall apply materiality when assessing: (Ref: Para. ~~A39A41-A47A49~~)

- (a) The appropriate and meaningfulness of the significant elements/aspects of service performance and related material performance measures and/or descriptions; and (Ref: Para. ~~A39A41-A40A42~~)
- (b) Individual or collective misstatements within performance measures and/or descriptions, measurement bases or evaluation methods, that based on the assurance practitioner's judgement, are likely to influence the decisions of the intended users based on the information.

27-28. The assurance practitioner shall revise the judgements made in determining materiality for the service performance information if matters come to the assurance practitioner's attention during the review that would have caused the assurance practitioner to make a different materiality judgement.

~~28-29.~~ The assurance practitioner shall consider individually or collectively, the impact on the service performance information, of all misstatements identified during the review, other than those that are clearly trivial, that are uncorrected by the entity. (Ref: Para. ~~A42A44-A47A49~~)

### Designing and Performing Procedures

~~29-30.~~ The assurance practitioner shall use the understanding obtained in paragraphs 16-19, to identify areas in the service performance information where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas. (Ref: Para. ~~A48A50~~)

~~30-31.~~ In obtaining sufficient appropriate evidence as the basis for a conclusion on the service performance information, the assurance practitioner shall design and perform enquiry and analytical procedures and, as the assurance practitioner considers necessary in the circumstances, other procedures: (Ref: Para. ~~A49A51-A54A53~~)

- (a) To address all material service performance information; and
- (b) To address areas where material misstatements are likely to arise.

~~31-32.~~ In designing analytical procedures, the assurance practitioner shall consider whether the data relevant to service performance information from the entity's information system and records are adequate for the purpose of performing the analytical procedures. (Ref: Para. ~~A52A54~~)

~~32-33.~~ Where possible the assurance practitioner shall draw on relationships that exist between the service performance information and the financial statements. (Ref: Para. ~~A53A55~~)

~~33-34.~~ Where the service performance information relates to a group, obtain sufficient appropriate evidence regarding the service performance information of the components and the aggregation or consolidation process in order to express a conclusion on the group service performance information. (Ref: Para. ~~A54A56~~)

### Non-compliance with laws and regulations

~~34-35.~~ The assurance practitioner shall comply with ISRE (NZ) 2400 for actual, suspected or alleged non-compliance with provisions of those laws and regulations that are generally recognised to have a direct effect on the reporting of material service performance information.

### Use of work performed by others

~~35-36.~~ The assurance practitioner shall determine whether information to be used as evidence has been prepared using the work of a management's expert. (Ref: Para. ~~A57A56~~)

~~36.~~ ~~If the assurance practitioner uses work performed by another assurance practitioner or an expert in the course of performing the review, the assurance practitioner shall take appropriate steps to be satisfied that the work performed is adequate for the assurance practitioner's purposes. (Ref: Para. A56)~~

37. Where service performance information is derived from a service organisation is used, the assurance practitioner shall obtain an understanding of the nature and significance of the services provided by the service organisation to identify areas where material

misstatements are likely to arise in the service performance information and thereby provide a basis for designing procedures to address those areas.

#### Written representations

38. In addition to the representations required by ISRE (NZ) 2400<sup>3</sup>, the assurance practitioner shall request written representations from management or those charged with governance, as appropriate, that they have fulfilled their responsibility for: (Ref: Para. ~~A57A58~~)
- (a) The selection of elements/aspects of service performance information, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in accordance with the applicable financial reporting framework.
  - (b) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
  - (c) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.
  - (d) Such internal control as management or those charged with governance, as appropriate, determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.

#### Evaluating the Evidence Obtained

39. The assurance practitioner shall evaluate whether sufficient appropriate evidence has been obtained regarding service performance information, in accordance with ISRE (NZ) 2400<sup>4</sup>. (Ref: Para. ~~A599~~)

#### Forming the Assurance Practitioner's Conclusion on the Service Performance Information

40. The assurance practitioner shall form a conclusion on whether anything has come to their attention that causes the assurance practitioner to believe:
- that the service performance information does not present fairly<sup>5</sup>, in all material respects, in that the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods,  
in accordance with the applicable financial reporting framework.
41. In forming a conclusion on the service performance information, the assurance practitioner shall consider:

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<sup>3</sup> ISRE (NZ) 2400, paragraph 61-65

<sup>4</sup> ISRE (NZ) 2400, paragraph 66-68

<sup>5</sup> When the service performance information is prepared in accordance with a compliance framework, the assurance practitioner is not required to evaluate whether the service performance information achieves fair presentation.

- (a) The appropriate and meaningfulness of the service performance information presented by the entity.
  - (b) Whether the service performance information is prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
  - (c) The availability of- the measurement bases or evaluation methods -to intended users. (Ref: Para. A~~6059~~-A610)
  - (d) Whether uncorrected misstatements are material, individually or collectively, as required by paragraph 2930.
  - (e) The sufficiency and appropriateness of evidence obtained, as required by paragraph 4439.
42. When the information is prepared in accordance with a fair presentation framework, in addition to the requirements of paragraph 4241, the assurance practitioner shall also consider whether anything has come to the assurance practitioner's attention that:
- (a) The overall presentation of the service performance information has been undermined by the inclusion of irrelevant information –or information that obscures a proper understanding of the matters disclosed;
  - (b) The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that does not achieve fair presentation.

*Form of the Conclusion*

43. The assurance practitioner's conclusion on the service performance information, whether unmodified or modified, shall be expressed in the appropriate form in the context of the financial reporting framework applied in the service performance information.

*Unmodified Conclusion*

44. The assurance practitioner shall express an unmodified conclusion in the assurance practitioner's report on the service performance information when the assurance practitioner has obtained limited assurance to be able to conclude that nothing has come to their attention that causes the assurance practitioner to believe:
- that the service performance information does not present fairly<sup>6</sup>, in all material respects; in that the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods,

in accordance with the applicable financial reporting framework.

*Modified Conclusion*

45. The assurance practitioner shall modify the conclusion, with respect to the service performance information when:

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<sup>6</sup> When the service performance information is prepared in accordance with a compliance framework, the assurance practitioner is not required to evaluate whether the service performance information achieves fair presentation.

- (a) The assurance practitioner concludes that either individually or collectively the elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods are materially misstated in that it is not appropriate and meaningful and as such is not in accordance with the applicable financial reporting framework, or
  - (b) The assurance practitioner concludes, based on the evidence obtained, that the service performance information is not individually or collectively free from material misstatement, or
  - (c) The assurance practitioner is unable to obtain sufficient appropriate evidence to conclude that the service performance information, as a whole, is free from material misstatement.
46. When the assurance practitioner modifies the conclusion with respect to the service performance information, the assurance practitioner shall consider the effect of the modification on the conclusion on the financial statements. (Ref: Para. A62~~4~~)
47. If the assurance practitioner modifies the conclusion on the financial statements, the assurance practitioner shall consider the effect of the modification on the conclusion of the service performance information.

#### **The Assurance Practitioner's report**

48. The assurance practitioner's report on the financial statements and the service performance information shall be included in a single report and shall include the elements required by ISRE (NZ) 2400<sup>7</sup> as applicable to the service performance information. (Ref: Para. A62A63-A63A64)
49. In addition to the requirements addressing financial statements in ISRE (NZ) 2400, the assurance practitioner's report shall:
- (a) Describe the responsibilities of management or those charged with governance, as appropriate, including for:
    - (i) The selection of elements/aspects of service performance information, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in accordance with the applicable financial reporting framework;
    - (ii) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;
    - (iii) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework; and
    - (iv) Such internal control as management or those charged with governance, as appropriate, determine is necessary to enable the preparation of service performance information that is free from material misstatement, whether due to fraud or error;

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<sup>7</sup> ISRE (NZ) 2400, paragraph 86-NZ86.1

- (b) Describe the assurance practitioner's responsibility to express a conclusion on the service performance information including reference to this NZ SRE and ISRE (NZ) 2400. This description should include the responsibility of the assurance practitioner to conclude whether anything has come to the assurance practitioner's attention that causes them to believe:
    - (i) that the service performance information does not present fairly, in all material respects; in that the service performance information is not appropriate and meaningful, and prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;
  - (c) Describe a review of service performance information and its limitations, including the following statements:
    - (i) A review engagement under this NZ SRE and ISRE (NZ) 2400 is a limited assurance engagement;
    - (ii) The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and, as the assurance practitioner considers necessary in the circumstances, other procedures, and evaluates the evidence obtained; and
    - (iii) The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board, and, accordingly, the assurance practitioner does not express an audit opinion on the service performance information; and
  - (d) Include a conclusion paragraph that:
    - (i) Contains the assurance practitioner's conclusion on the service performance information;
    - (ii) Identifies the service performance information; and
    - (iii) Refers to the measurement bases or evaluation methods.
50. When the assurance practitioner modifies the conclusion with respect to the service performance information only, the conclusion shall clearly indicate that the conclusion on the financial statements is not modified. The assurance practitioner shall:
- (a) Use the heading "Qualified Conclusion on the Statement of Service Performance", "Adverse Conclusion on the Statement of Service Performance" or "Disclaimer of Conclusion on the Statement of Service Performance" as appropriate, for the conclusion paragraph in the assurance practitioner's report. The conclusion with respect to the financial statements shall use the heading "Conclusion on the Financial Statements"; and
  - (b) Provide a description of the matter giving rise to the modification, under an appropriate heading (for example, "Basis for Qualified Conclusion on the Statement of Service Performance", "Basis for Adverse Conclusion on the Statement of Service Performance" or "Basis for Disclaimer of Conclusion on the Statement of Service Performance," as appropriate), in a separate section in the assurance practitioner's report immediately before the conclusion paragraph

(referred to as the basis for conclusion paragraph in ISRE (NZ) 2400<sup>8</sup>).

#### *Scope Limitation*

51. If the assurance practitioner is unable to obtain sufficient appropriate evidence to form a conclusion, the assurance practitioner shall discuss with management or those charged with governance, as appropriate, the effects such limitations have on the scope of the review. (Ref: Para. [A64A65-A65A66](#))

#### *Emphasis of Matter Paragraphs and Other Matter Paragraphs*

52. If the assurance practitioner considers it necessary to draw users' attention to a matter presented or disclosed in the service performance information, that in the assurance practitioner's judgement, is of such importance that it is fundamental to users' understanding of the service performance information, the assurance practitioner shall include an Emphasis of Matter paragraph in the assurance practitioner's report.
53. If the assurance practitioner considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the assurance practitioner's judgement, is relevant to users' understanding of the review of service performance information, the assurance practitioner shall include an Other Matter paragraph in the assurance practitioner's report.

#### **Communication with Management and Those Charged with Governance**

54. In applying ISRE (NZ) 2400<sup>9</sup>, the assurance practitioner shall communicate with management and those charged with governance, as appropriate, on a timely basis during the course of the review engagement, all matters concerning the review of service performance information that, in the assurance practitioner's professional judgement, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate. (Ref: Para. [A66A67-A68A69](#))

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#### **Application and Other Explanatory Material**

##### **Introduction (Ref: Para. 42)**

~~A1. Service performance reporting requirements are generally less prescribed than financial information which may result in varied service performance reporting between similar entities and industries.~~ The assurance practitioner may benefit from early engagement with the entity to understand the entity's service performance reporting process, and address any challenges that may arise having considered the factors required by paragraph ~~25~~24.

A2. Service performance reporting requirements are generally less prescribed than financial information. This may result in varied service performance reporting between similar entities and industries. Therefore, when providing limited assurance over service performance information, prior to obtaining evidence that the service performance information fairly reflects actual performance, it is fundamental that the assurance practitioner uses their understanding of the entity, to firstly consider what

<sup>8</sup> ISRE (NZ) 2400, paragraph 80, 85

<sup>9</sup> ISRE (NZ) 2400, paragraph 42

service performance information the entity has selected to report, and how that information will be measured or evaluated.

### Scope of this NZ SRE (Ref: Para. 56)

~~A4:A3.~~ An entity may be required to identify the service performance information that is prepared in accordance with the applicable financial reporting framework. This standard only applies to service performance information prepared in accordance with the applicable financial reporting framework.

### Objective (Ref: Para. 7(a))

~~A2.~~ Examples that the assurance practitioner may consider to assess aspects of service performance information include:

- ~~• The elements/aspects of service performance that the entity has selected to report on. For example, provide safe drinking water to stakeholders.~~
- ~~• The performance measures and/or descriptions the entity has used to report on what it has done in relation to the elements/aspects of service performance during the reporting period. For example, 100% of water supplied was safe.~~
- ~~• The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description. For example, Drinking Water Standards for New Zealand or internally generated safe drinking water criteria.~~

**Commented [LT1]:** This has been moved to application material for appropriate and meaningful assessment

### General Requirements

#### Conduct Engagement in Accordance with ISRE (NZ) 2400 (Ref: Para. 9)

~~A3:A4.~~ This NZ SRE supplements ISRE (NZ) 2400. It expands on how ISRE (NZ) 2400 is to be applied to the service performance information. This NZ SRE includes specific requirements for the service performance information that are not explicitly dealt with by ISRE (NZ) 2400 or where the application of ISRE (NZ) 2400 differs as a result of the nature of the service performance information.

#### Professional Judgement and Professional Scepticism (Ref: Para. 12)

~~A4:A5.~~ The applicable financial reporting framework enables an entity to determine how it selects, aggregates, measures and presents its service performance information. As such, this elevates the need for early engagement and planning of sufficient time to pause, obtain an understanding of the entity and to exercise professional judgement, particularly to assess whether the service performance information is appropriate and meaningful and to determine materiality. The assurance practitioner may find it helpful to seek out examples of service performance reporting of similar entities.

### Documentation (Ref: Para. 14(a))

~~A5:A6.~~ Examples of circumstances relating to the use of professional judgement to include in documentation include significant matters and judgements relating to:

- The appropriate and meaningfulness of the service performance information (Ref: Para. 24).

- The factors considered in determining materiality and what measures are material (Ref: Para. 26).

#### **Agreeing the Terms of the Engagement (Ref: Para. 15)**

A7. The terms of the review engagement include references to the service performance information.

A6-A8. A review is conducted in accordance with this NZ SRE on the basis that management, and where appropriate, those charged with governance, have acknowledged and understand that they have a responsibility for the preparation of service performance information that is appropriate and meaningful and for designing, implementing and maintaining a system of internal control that management and, where appropriate, those charged with governance, determine is necessary to enable the preparation of service performance information that is appropriate and meaningful. The entity's process to identify service performance information to report should appropriately support the preparation of service performance information that is appropriate and meaningful. In the absence of such a process, it may be difficult to establish whether management or those charged with governance, as appropriate, have a reasonable basis for the service performance information.

A7-A9. Some entities are required by the applicable financial reporting framework to prepare entity information.<sup>10</sup> For Tier 3 registered charities that have a statutory review requirement<sup>11</sup>, all information required to be prepared by the applicable reporting standard is required to be reviewed, including the entity information.

A8-A10. An illustrative engagement letter that covers the agreed terms of the engagement of the performance report is set out in Appendix 1.

#### **The Assurance Practitioner's Understanding**

##### *Understanding the Entity (Ref: Para. 16)*

A9-A11. The assurance practitioner may obtain an understanding through:

- (a) Enquires with management or those charged with governance, as appropriate.
- (b) Reading:
  - Founding documents such as rules, constitution or trust deed.
  - Statement of intent.
  - Past statements of service performance.
  - Funding documents or agreements.
  - Minutes from governance meetings.
  - Entity's newsletters.
  - Entity's public website.

<sup>10</sup> Reporting Requirements for Tier 3 Not-for-Profit Entities  
Reporting Requirements for Tier 3 Public Sector Entities  
Reporting Requirements for Tier 4 Not-for-Profit Entities  
Reporting Requirements for Tier 4 Public Sector Entities

<sup>11</sup> Charities Act 2005, section 42C, paragraph 2(b)

- Charities register.
- Media reports.

*Understanding Laws and Regulations (Ref: Para. 17)*

A10-A12. Laws and regulations may differ among entities depending on their governing legislation.

A11-A13. The nature of the performance report may be specified in applicable legislation, which may indirectly determine the nature of the performance information to be reported.

A12-A14. The provisions of those laws and regulations may require the entity to present particular service performance information which may be over and above any requirements to comply with the applicable financial reporting framework. As the reporting is required by law and regulation the assurance practitioner is not required to assess whether the service performance information is appropriate and meaningful.

*Understanding the Service Performance Information Reported (Ref: Para. 18)*

A13-A15. The entity will need to interpret the applicable financial reporting framework and either select pre-existing external service performance information, including pre-established performance measures and/or descriptions or measurement bases or evaluation methods from guidance, standards, laws or regulation, or it may need to apply judgement to develop internally its own performance measures and/or descriptions or measurement bases or evaluation methods for its service performance information. The need for such judgement makes the preparation of service performance information inherently more susceptible to the risk of management bias.

A14-A16. The process applied by the entity to determine what service performance information to report on and how to measure or evaluate its service performance information may affect the work that the assurance practitioner carries out. The level of potential management bias in selecting the elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods directly correlates with the amount of work that the assurance practitioner may need to perform when considering the service performance information reported or intended to report. For example, use of performance measures and/or descriptions or measurement bases or evaluation methods specified by external benchmarks or industry guidance may require less work than internally generated performance measures and/or descriptions or measurement bases or evaluation methods, as external guidance reduces the risk of management bias. The entity may have documentation that reflects the process it went through in selecting its service performance information. Transparency about the entity's process to select its service performance information and the entity's consideration of materiality may also affect the work that the auditor carries out.

A15-A17. In the early stages of reporting service performance information, the entity may not have developed an appropriate process, supported by internal controls, to identify its service performance information, or service performance information may be less accurate or complete. The entity may therefore be unable to include certain aspects of its service performance in its service performance information. The assurance practitioner exercises professional judgement to conclude on the impact of such omissions (including those for which the entity has provided reasons or explanations).

This is particularly relevant since entities will be at varying stages of maturity in respect of preparing service performance information.

**A16-A18.** Unforeseen events impacting the entity may require the entity to focus on different elements/aspects of service performance, performance measures and/or descriptions or measurement bases or evaluation methods than intended when the service performance information was determined for the period. The assurance practitioner should gain an understanding of such events and the impact it has on service performance reporting and whether any alternative elements/aspects of service performance, performance measures and/or descriptions or measurement bases or evaluation methods used are more appropriate and meaningful to fairly reflect the revised activities or services performance of the entity over the period.

#### *Understanding of Internal Control (Ref: Para. 19)*

**A17-A19.** Internal control systems related to the preparation of service performance may be less developed or less well embedded into the operations than those related to the preparation of financial information. They may be less traditional to those used for financial information.

**A18-A20.** An entity's internal control systems related to the preparation of service performance information may vary by size or complexity of the entity, and the nature and complexity of the service performance information. There is a difference between simple controls and inadequate controls. Simple controls may be adequate when the entity and the performance measure and/or description and its measurement basis or evaluation method are not complex.

#### **Planning (Ref: Para. 20)**

**A19-A21.** Although it is likely that the service performance information and financial information will come from different systems, a single approach to the review recognises the inextricable link between the service performance information and the financial statements of an entity.

**A20-A22.** It is important to engage with the entity as early as possible to understand the elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods the entity intends to report.

**A21-A23.** Expertise in a field other than accounting or assurance may be necessary as a result of information included in the service performance information, for example, expertise in relation to the measurement of complex performance measures.

#### **Compliance With the Applicable Financial Reporting Framework**

##### *Appropriate and Meaningful (Ref: Para. 24)*

**A24.** When considering the service performance information, the assurance practitioner assesses how well the entity has balanced the qualitative characteristics and pervasive constraints when selecting its elements/aspects of service performance, performance measures and/or descriptions, and measurement bases and evaluation methods.

**A25.** Consideration of whether the service performance information will result in appropriate and meaningful reporting may include the following aspects of service performance information:

- The elements/aspects of service performance that the entity has selected to report on. For example, provide safe drinking water to stakeholders.
- The performance measures and/or descriptions the entity has used to report on what it has done in relation to the elements/aspects of service performance during the reporting period. For example, 100% of water supplied was safe.
- The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description. For example, Drinking Water Standards for New Zealand or internally generated safe drinking water criteria.

A22-A26. It is the entity's responsibility to determine what information to report, and for the assurance practitioner to consider the process and rationale the entity applied in arriving at the selection of information to report, and to use professional judgement to assess whether the reported information does not present fairly, in all material respects, the service performance information.

A23-A27. The entity's selection of –appropriate and meaningful service performance information to report involves a considerable amount of judgement. Although enquiry may be the principal source of evidence, there may be documentation that provides evidence to support the judgements made by the entity in selecting the service performance information to report, for example, those referred to in paragraph A40A11.

A24-A28. The assurance practitioner may consider whether the service performance information inappropriately attributes service performance to the entity. (Ref: Para. 24(a))

A25-A29. The assurance practitioner may consider: (Ref: Para. 24(b))

- Whether the service performance information presents a neutral view including all significant aspects, both positive and negative.
- Whether any service performance information is omitted, where this is an appropriate link to the service performance of the entity.
- Whether there is potential for management bias in the selection of the performance measure and/or descriptions.
- If the entity reports targets, how those targets may obscure a proper understanding of the entity's service performance.
- The results of surveys. For example, satisfaction surveys, or other evidence of stakeholder consultation, e.g., feedback, complaints which may indicate the appropriateness of the service performance information.
- Whether the process to determine what service performance information to report involved the intended users and what information they may find helpful to assess the service performance of the entity - lowering the risk of management bias.
- External requirements or agreements with external parties that influence the entity's service performance accountability.
- Whether the service performance information was pre agreed with key stakeholders.

- Guidelines developed and issued collectively by a group or published in journals or results of benchmarking studies, for example, central agencies may provide guidance or establish requirements for the preparation of service performance information. The assurance practitioner may need to evaluate the suitability of these guidelines to the entity's circumstances and how these align to intended users' needs. More detailed service performance reporting may be more appropriate.
- Whether an overly voluminous service performance report is detracting from the usefulness and relevance of the overall report.
- Whether the service performance report is complete.

A26-A30. An entity may select service performance information to report on the basis that the selected performance is readily obtainable or measurable however it may not be the most relevant information to enable the user to understand or assess the service performance of the entity. (Ref: Para. 24(b))

A27-A31. The assurance practitioner may consider whether: (Ref: Para. 24(c))

- The service performance information shows clear and logical links between the element/aspect of service performance to be measured or evaluated and the entity's overall purpose and strategies.
- There is other potentially more relevant service performance information that could have been used and reasons why those were not included.
- The entity has a clear understanding of its contribution toward longer term elements/aspects of service performance.
- The entity uses a well-established performance framework, theory of change or intervention logic model to explain how its service performance during the reporting period relates to its broader aims and objectives or may have described predetermined objectives or specific performance goals or targets in agreements with key stakeholders; for example, a local authority's Long-Term Plan, statement of intent, charter, recent plans and strategies or agreements with key funders. The selection of service performance information pre agreed with key stakeholders may have a lower risk of management bias.
- The service performance information reflects how the entity assesses its service performance for the purpose of internal decision making.

A28-A32. The potential for management bias directly correlates with the amount of consideration that the assurance practitioner may need to give to the appropriate and meaningfulness of the service performance information. For example, the assurance practitioner may need to consider management bias when there are multiple measurement bases or evaluation methods possible to assess a performance measure. Also, there may be greater management bias when the measurement basis or evaluation method is internally generated rather than an external industry standard. (Ref: Para. 24(e))

A29-A33. Some service performance information that is more relevant for users, may be measured less precisely. The assurance practitioner may perform different review procedures than for those where the service performance can be more precisely measured. (Ref: Para. 24(e))

A30-A34. The assurance practitioner's consideration of the appropriate and meaningfulness of service performance information may be an iterative process.

**Materiality (Ref: Para. 25-29)**

A31-A35. There can be significant variation in the service performance information selected and presented by entities. The assurance practitioner'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 intended users of the service performance information.

A32-A36. Understanding what elements/aspects of service performance are significant to users may assist the assurance practitioner in focusing their review efforts and applying professional judgement when considering any misstatements identified.

A33-A37. The assurance practitioner's materiality considerations and determination of materiality is a matter of professional judgement. The requirements in paragraph 24, particularly the factors regarding relevance considered by the assurance practitioner in paragraphs A25-A24 to A33A34, may assist the assurance practitioner to determine materiality considerations and/or materiality.

A34-A38. The applicable financial reporting framework may discuss the concept of materiality in the context of preparation and presentation of service performance information. Such a discussion may provide a frame of reference to the assurance practitioner in determining what is material. The assurance practitioner's consideration of the entity's process to select the elements/aspects of service performance, the performance measures and/or descriptions, and measurement bases or evaluation methods to use also provides context in determining materiality considerations and/or materiality.

A35-A39. The basis for materiality will likely differ from the financial statements. Materiality may be expressed in terms of the appropriate unit of account for each element/aspect of service performance or performance measure and/or description reported. The assurance practitioner is unlikely to be able to set an overall materiality because there is unlikely to be a common unit of account. It may be possible to group similar service performance measures and/or descriptions together and make materiality decisions on the same basis if they have the same unit of account.

A36-A40. The materiality considerations determine the assurance practitioner's tolerance for misstatement in relation to material service performance measures and/or descriptions. Material misstatements may occur in both qualitative and quantitative service performance information. The assurance practitioner may need to exercise professional judgement beyond the traditional approach of applying a percentage to a chosen benchmark. In some instances, there may be no tolerance for error in some performance measures and/or descriptions.

A37-A41. It is a matter of professional judgement whether the assurance practitioner's assessment of the significant elements/aspects of service performance and related material performance measures and/or descriptions required by paragraph 27(a) gives rise to a material misstatement.

A38-A42. The assurance practitioner may firstly consider which elements/aspects of service performance are important to intended users. Having identified those, the assurance practitioner may then consider what are the material performance

measures and/or descriptions that measure performance in those elements/aspects of service performance. A tolerance for misstatement is then applied by the assurance practitioner to material service performance measures and/or descriptions.

A39-A43. The following factors may assist the assurance practitioner in applying materiality:

- The importance of the element/aspect of service performance to achieving the entity's service performance objectives. For example, whether the performance measure and/or description relates to the primary purpose of the entity. The more important the activity, the less tolerance for misstatement.
- How the information is presented. For example, does the presentation draw attention to particular information? The assurance practitioner may be less tolerant of misstatement in information that is given the most prominence.
- The extent of interest shown in particular aspects of service performance by, for example funders, key stakeholders or the public; and for example, whether the service performance information is likely to cause funders to increase or decrease funding in the entity. The higher the level of interest shown, the lower the tolerance for misstatement. For matters where there is the most significant interest, the assurance practitioner may be less accepting of misleading or inaccurate information.
- The economic, social, political and environmental effect of a project or an entity's work, where there is a high level of wider societal interest in it, particularly high levels of public sensitivity, or relate to an activity that could be a significant risk to the public.
- Whether a particular aspect of the service performance information is significant with regard to the nature, visibility and sensitivity of the information. For example, there has been a large number of complaints relating to it, or relates to an activity that is strongly linked to management performance rewards.
- The relative volatility of reported service performance information. For example, if service performance information varies significantly from period to period.
- The number of persons or entities affected.
- Where there is information about achieving a target or threshold, and the relationship of the actual performance to the target. For example, the assurance practitioner may be particularly diligent where a target has only just been achieved.
- Whether a misstatement is material having regard to the assurance practitioner's understanding of known previous communications to users.

#### *Misstatements*

A40-A44. A misstatement may arise when:

- An element/aspect of service performance or performance measure or description, or a measurement basis or evaluation method selected is assessed by the assurance practitioner as not being appropriate and meaningful;
- An element/aspect of service performance or performance measure and/or description is omitted that is assessed by the assurance practitioner as being

appropriate and meaningful;

- The information is not prepared in accordance with the entity's measurement basis or evaluation method;
- The entity's service performance information is not in accordance with the applicable financial reporting framework.

A41-A45. An individual misstatement, impacting a single element/aspect of service performance, performance measure and/or description, may be material.

A42-A46. A number of misstatements, when observed collectively across the service performance information, may also be material if they amount to a misleading portrayal of the entity's service performance information. Even though taken individually, each service performance measure and/or description may not be materially misstated, the assurance practitioner needs to consider whether the service performance information as a whole is materially misstated.

A43-A47. It is unlikely that the assurance practitioner will be able to aggregate misstatements numerically. However, this does not remove the need for the assurance practitioner to form a conclusion as to whether uncorrected misstatements are material individually or collectively, as required by paragraph 39.

A44-A48. The assurance practitioner exercises professional judgement to conclude on the impact of any material misstatement on the conclusion. The assurance practitioner may consider factors such as whether the misstatement impacts a significant element/aspect of service performance and whether it is likely to influence the decisions of the intended users.

A45-A49. Examples of factors that may lead to a material misstatement, include:

- Misuse of language – that creates a misleading picture of the entity's performance.
- Misleading presentation – which highlights or downplays aspects of performance, to create a misleading picture of the entity's service performance.
- Bias – an emphasis is placed on good performance and downplays or omits poor performance i.e., isn't neutral.
- Omission of fact – something is left out that may be important to understanding the entity's service performance or is important to intended users.
- Incorrect measurement or evaluation – the service performance measure isn't prepared in accordance with the measurement basis or evaluation method selected by the entity.
- Where quantifiable service performance information misstates the level of actual performance beyond a determined level (the traditional application of materiality).
- Misstatement of fact.
- Misrepresentation of trend – performance presented does not represent the facts available.
- Unsubstantiated claims.

## Designing and Performing Procedures (Ref: Para. 30-34)

A46-A50. Service performance information may not come directly from traditional financial reporting information systems and source records. Nevertheless, the entity will need an accurate record keeping system that provides relevant and reliable evidence. The assurance practitioner may find it more challenging and need to think differently than for traditional financial reporting to obtain relevant and reliable evidence.

A47-A51. The mix of procedures to be performed may vary compared with the mix used in regard to the financial statements, but the mix of procedures used does not alter the level of evidence required.

A48-A52. In a review, the assurance practitioner performs primarily enquiry and analytical procedures. However, the nature of service performance information reported may have an effect on the mix of procedures used. For example, due to the nature of the service performance information analytical procedures may not be relevant and so another substantive procedure may be more appropriate.

A49-A53. The fact that the assurance practitioner may deem it necessary to perform other procedures does not alter the assurance practitioner's objective of obtaining limited assurance in relation to the service performance information.

A50-A54. The assurance practitioner's consideration of whether data to be used for analytical procedures are satisfactory for the intended purpose(s) of those procedures is based on the assurance practitioner's understanding of the entity and its environment and is influenced by the nature and source of data, and by the circumstances in which the data are obtained. The following considerations may be relevant:

- Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity.
- Nature and relevance of the information available. For example, what is the proximity of the information to the effect being reported.
- The knowledge, expertise and any related controls involved in the preparation of the information.

A51-A55. In designing analytical procedures, the assurance practitioner may be able to identify relationships between the service performance information and the financial information as a sense check that the financial and service performance information are reflecting a consistent report of the performance of the entity. For example, does the movement in fuel expense in the financial statements reflect the number of home visits reported.

A52-A56. When the assurance practitioner is engaged to review the service performance information of a group of entities, the planned nature, timing and extent of the procedures for the review are directed at achieving the assurance practitioner's objectives for the review engagement stated in this NZ SRE, but in the context of the group service performance information.

**Use of work performed by others (Ref: Para. 36-3837)**

~~A53-A57.~~ The assurance practitioner may use the work of an individual or organisation possessing expertise in a field other than accounting or assurance, whose work in that field is used by the entity to assist the entity in preparing the service performance information (a management's expert). Examples may include a professional survey firm conducting a perception questionnaire or satisfaction survey, or preparing a water quality report.

~~A54. To be satisfied that the work performed by the other practitioner or expert is adequate, the assurance practitioner may, based on professional judgement, determine:~~

- ~~(a) The nature, timing and scope of that other practitioner or expert's work.~~
- ~~(b) The risk of material misstatement in the matter to which that other practitioner or expert's work relates.~~
- ~~(c) Whether the other practitioner or expert has the necessary competence, capabilities and objectivity required.~~

**Written representations (Ref: Para. 3938)**

~~A55-A58.~~ An illustrative written representation letter is set out in in Appendix 2.

**Evaluating the Evidence Obtained (Ref: Para. 3940)**

~~A56-A59.~~ What constitutes sufficient appropriate evidence is a matter of professional judgement. The assurance practitioner may need to identify alternative sources of evidence not normally considered for reviews of financial information.

**Forming the Assurance Practitioner's Conclusion on the Service Performance Information (Ref: Para. 401-478)**

~~A57-A60.~~ The measurement bases or evaluation methods used to assess a performance measure and/or description need to be made available to intended users to allow them to understand how the underlying service performance information has been measured or evaluated.

~~A58-A61.~~ The measurement bases or evaluation methods may be made available to the intended users in one or more ways, for example:

- (a) Publicly, for example, readily available documents such as a published external assessment framework on a website.
- (b) Through inclusion in a clear manner in the presentation of the service performance information, in particular for entity-developed measurement bases or evaluation methods.
- (c) Through inclusion in a clear manner in the description of the performance measure and/or description itself, for example, number of meals delivered.
- (d) By general understanding, for example, the method of measuring time in hours and minutes. The assurance practitioner may consider whether it is clear what the time is measuring. For example, an entity may measure its response time to an outage but will need to be clear as to whether the response time is measured from when a call is lodged, or measures the time taken to address a fault from when someone arrives to address the fault.

### Form of the Conclusion

#### Modified Conclusion (Ref: Para. ~~4746~~)

~~A59-A62.~~ In those circumstances where the assurance practitioner concludes that the service performance information is not presented fairly and that the assurance conclusion should be modified, the assurance practitioner will need to exercise professional judgement to determine whether to issue a modified conclusion on just the service performance information or whether to modify the conclusion on both the service performance information and the financial statements. In many instances, a modified conclusion in respect of the service performance information will not impact upon the conclusion on the financial statements.

#### The Assurance Practitioner's report (Ref: Para. ~~498-534~~)

~~A60-A63.~~ The assurance practitioner's report includes references to the service performance information. An illustrative Assurance Practitioner's Report that includes references to the service performance information is set out in Appendix 3.

~~A64-A64.~~ Illustrations of Assurance Practitioner's Reports with Modified Conclusions with respect to Service Performance Information are set out in Appendix ~~X4~~. ~~[to be determined]~~

#### Scope Limitation (Ref: Para. ~~5251~~)

~~A62-A65.~~ Inability to perform a specific procedure does not constitute a limitation on the scope of the review if the assurance practitioner is able to obtain sufficient appropriate evidence by performing other procedures.

~~A63-A66.~~ Limitations on the scope of the review imposed by management may have other implications for the review, such as for the assurance practitioner's consideration of areas where the service performance information is likely to be materially misstated, and engagement continuance.

#### Communication with Management and Those Charged with Governance (Ref: Para. ~~5554~~)

~~A64-A67.~~ The assurance practitioner is encouraged to communicate with management or as appropriate, with those charged with governance early or as soon as practicable.

~~A65-A68.~~ The assurance practitioner may communicate the following matters in relation to the review of service performance information:

- (a) Any uncorrected misstatements identified during the review of the service performance information;
- (b) The assurance practitioner's views about significant judgements made in reporting the entity's service performance information, if applicable, including any areas for improvement;
- (c) Significant difficulties, if any, encountered during the review, for example, extensive unexpected effort required to obtain sufficient appropriate evidence or the unavailability of expected information.
- (d) Unless all of those charged with governance are involved in managing the entity, significant matters arising during the review that were discussed, or subject to correspondence with management, such as, matters that were pervasive to the

service performance information, biases in the performance measures and/or descriptions, for example, questions in a survey articulated to drive a particular result; and

- (e) Any other matters in respect of the service performance information that, in the assurance practitioner's professional judgement, management and those charged with governance, as appropriate, need to be aware of.

A66-A69. The assurance practitioner's views on the judgemental areas of reporting the entity's service performance may be particularly relevant to those charged with governance in discharging their responsibilities for the preparation of the service performance information. For example, why the assurance practitioner considers the service performance information not to be appropriate and meaningful. Open and constructive communication including feedback on the maturity of the entity's process to prepare the service performance information, the service performance information selected by the entity or how the information compares to other entities may drive improvements over time. This may include comments about, for example, judgemental aspects of what service performance information to report on, concerns regarding management bias or the quality of the presentation of the information.

DRAFT

## Appendix 1

(Ref: Para. A9A10)

### Illustrative Review Engagement Letter including Service Performance Information<sup>12</sup>

The following is an example of a review engagement letter for a review of a *[financial report/ performance report]*, which comprise financial statements and service performance information *[and entity information]*. It is assumed in this illustration that the applicable financial reporting framework is a fair presentation framework. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in ISRE (NZ) 2400 and NZ SRE 1. It will need to be varied according to individual requirements and circumstances. It may be appropriate to seek legal advice that any proposed letter is suitable.

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To *[Those Charged with Governance]*:

#### ***[The objective and scope of the review]***

You<sup>13</sup> have requested that we review the *[financial report/ performance report]* of *[ABC Entity (the "entity")]*, which comprise the financial statements, and the service performance information *[, and entity information]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3<sup>14</sup>, *[the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity]*, and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. We are pleased to confirm our acceptance and our understanding of this review engagement by means of this letter.

Our review will be conducted with the objective of our expressing our conclusion on the *[financial report/ performance report]*.

#### ***[The assurance practitioner's responsibilities]***

We will conduct our review of the financial statements in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity* and the review of the service performance information*[, and entity information]* in accordance with the New Zealand Standard on Review Engagements (NZ SRE) 1 *Review of Service Performance Information*. Those standards require us to conclude whether anything has come to our attention that causes us to believe that: the *[financial report/ performance report]*, taken as a whole, do not present fairly, in all material respects, in accordance with *[the applicable financial reporting framework (e.g., Reporting Requirements for Tier 3 Not-for-Profit Entities)]*; and the service performance information is not appropriate and meaningful and

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<sup>12</sup> May also be referred to as the Statement of Service Performance.

<sup>13</sup> Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "assurance practitioner" would be used or amended as appropriate in the circumstances.

<sup>14</sup> Where the assurance practitioner reports on more than one period, the assurance practitioner adjusts the date so that the letter pertains to all periods covered by the assurance practitioner's report.

prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with *[the applicable financial reporting framework]*.

Those standards also require that we comply with relevant ethical requirements.

A review of the *[financial report/ performance report]* in accordance with ISRE (NZ) 2400 and NZ SRE 1 is a limited assurance engagement. We will perform procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures and, as we consider necessary in the circumstances, other procedures, and evaluate the evidence obtained. We will also perform additional procedures if we become aware of matters that cause us to believe the *[financial report/ performance report]* as a whole may be materially misstated. These procedures are performed to enable us to express our conclusion on the *[financial report/ performance report]* in accordance with ISRE (NZ) 2400 and NZ SRE 1. The procedures selected will depend on what we consider necessary applying our professional judgement, based on our understanding of the entity and its environment, and our understanding of the applicable financial reporting framework and its application in the industry context.

A review is not an audit of the *[financial report/ performance report]*, therefore:

- (a) There is a commensurate higher risk than there would be in an audit, that any material misstatements that exist in the *[financial report/ performance report]* reviewed may not be revealed by the review, even though the review is properly performed in accordance with ISRE (NZ) 2400 and NZ SRE 1.
- (b) In expressing our conclusion from the review of the *[financial report/ performance report]*, our report on the performance report will expressly disclaim any audit opinion on the *[financial report/ performance report]*.

***[The responsibilities of those charged with governance and identification of the applicable financial reporting framework]***

Our review will be conducted on the basis that *[Those Charged with Governance]* acknowledge and understand that they have responsibility, on behalf of the entity:

- (a) For the preparation, and fair presentation of the *[financial report/ performance report]* in accordance with *[the applicable financial reporting framework]*;
- (b) For the selection of elements/aspects of service performance information, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful and, in accordance with *[the applicable financial reporting framework]*;
- (c) For the preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with *[the applicable financial reporting framework]*;
- (d) For the overall presentation, structure and content of the service performance information in accordance with *[the applicable financial reporting framework]*;
- (e) For such internal control as *[Those Charged with Governance]* determine is necessary to enable the preparation of the *[financial report/ performance report]* that is free from material misstatement, whether due to fraud or error; and
- (f) To provide us with:
  - (i) Access to all information of which *[management and [Those Charged with*

*Governance]* are aware that is relevant to the preparation of the *[financial report/ performance report]* such as records, documentation and other matters;

- (ii) Additional information that we may request from *[management or [Those Charged with Governance]]* for the purpose of the review; and
- (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our review, we will request from *[Those Charged with Governance]*, written confirmation concerning representations made to us in connection with the review.

We look forward to full cooperation from your team during our review.

**[Other relevant information]**

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

**[Reporting]**

[Insert appropriate reference to the expected form and content of the assurance practitioner's report.]

The form and content of our report may need to be amended in the light of our findings obtained from the review.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our review of the *[financial report/ performance report]* including our respective responsibilities.

[Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate]

Acknowledged and agreed on behalf of *[Those Charged with Governance]* of *[ABC Entity]* by  
(signed)

.....

Name and Title

Date

## Appendix 2

(Ref: Para. A578)

### Illustrative Representation Letter including Service Performance Information<sup>15</sup>

The following illustrative representation letter includes written representations that are required by ISRE (NZ) 2400 and NZ SRE 1. It is to be used as a guide only and will need to be modified according to the engagement requirements and circumstances.

Representations by management, or where appropriate, those charged with governance<sup>16</sup>, will vary between entities and reporting periods. Representation letters are ordinarily useful where evidence, other than that obtained by enquiry, may not be reasonably expected to be available or when management, or where appropriate, those charged with governance have made oral representations which the assurance practitioner wishes to confirm in writing.

It is assumed in this illustration that the applicable financial reporting framework is a fair presentation framework, and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

\*\*\*

(Entity Letterhead)

(To Assurance Practitioner)

(Date)

This representation letter is provided in connection with your review of the *[financial report/ performance report]* of *[ABC Entity (the "entity")]* for the year ended December 31, 20X3<sup>17</sup> for the purpose of expressing a conclusion as to whether anything has come to your attention that causes you to believe:

- that the accompanying *[financial report/ performance report]* do not present fairly, in all material respects:
  - *[the entity information as at December 31, 20X3;]*
  - the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
  - the service performance for the year ended December 31, 20X3
- that the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods in accordance with *[the applicable financial reporting framework (e.g.: Reporting Requirements for Tier 3 Not-for-Profit Entities)]* issued by the New Zealand Accounting Standards Board.

We confirm that, *(to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves)*:

#### ***[Financial Report/ Performance Report]***

<sup>15</sup> May also be referred to as the Statement of Service Performance.

<sup>16</sup> Use terminology as appropriate in the circumstances.

<sup>17</sup> Where the assurance practitioner reports on more than one period, the assurance practitioner adjusts the date so that the letter pertains to all periods covered by the assurance practitioner's report.

- We have fulfilled our responsibilities on behalf of the entity, as set out in the terms of the review engagement dated *[insert date]*, for:
  - The preparation, and fair presentation of the *[financial report/ performance report]* in accordance with *[the applicable financial reporting framework]*;
  - The selection of elements/aspects of service performance information, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in accordance with *[the applicable financial reporting framework]*;
  - The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with *[the applicable financial reporting framework]*;
  - The overall presentation, structure and content of the service performance information in accordance with *[the applicable financial reporting framework]*; and
  - Such internal control as *[Those Charged with Governance]* determine is necessary to enable the preparation of the *[financial report/ performance report]* that is free from material misstatement, whether due to fraud or error.
- *[Any other matters that the assurance practitioner may consider appropriate (see paragraph A105 of ISRE (NZ) 2400).]*

*Information Provided*

- We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the *[financial report/ performance report]* such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the review; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain evidence.
- We have disclosed to you:
  - The identity of the entity's related parties and all the related party relationships and transactions of which we are aware;
  - All significant facts relating to any frauds or suspected frauds known to us that may have affected the entity;
  - All known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity's *[financial report/ performance report]*;
  - All information relevant to use of the going concern assumption in the *[financial report/ performance report]*;
  - That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed;

- Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures;
- Material non-monetary transactions or transactions for no consideration undertaken by the entity in the financial reporting period under consideration; and
- *[Any other matters that the assurance practitioner may consider appropriate (see paragraph A105 of ISRE (NZ) 2400).]*

Signed on behalf of [*Those Charged with Governance*]<sup>18</sup> of [*ABC Entity*] by

(signed)

.....  
Name and Title

(signed)

.....  
Name and Title

DRAFT

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<sup>18</sup> The addressees and references in the letter would be those appropriate in the circumstances of the engagement.

### Appendix 3

(Ref: Para. A62A63)

#### Illustrative Assurance Practitioner's Review Report including Service Performance Information<sup>19</sup>

##### **Illustration 1: Illustrative Assurance Practitioner's Review Report**

Circumstances include the following:

- Review of a *[financial report/ performance report]* of a public benefit entity that is not a group.
- The *[financial report/ performance report]* is prepared in accordance with a fair presentation framework.
- The terms of the review engagement reflect the description of the responsibility of those charged with governance for the *[financial report/ performance report]*.
- The assurance practitioner has concluded an unmodified (i.e., "clean") conclusion is appropriate based on the evidence obtained.
- The assurance practitioner has no other reporting responsibilities required under local law.

Reference should be made to ISRE (NZ) 2400 to ensure that the requirements of ISRE (NZ) 2400 have been met.

#### **INDEPENDENT ASSURANCE PRACTITIONER'S REVIEW REPORT**

*[Appropriate Addressee]*

We have reviewed the accompanying *[financial report/ performance report]* of *[ABC Entity (the "entity")]*, which comprise the financial statements on pages *x to xx*, and the service performance information on pages *x to xx* [, and *entity information on page x*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and *[the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity]*, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

#### **Responsibilities of *[Those Charged with Governance]*<sup>20</sup> for the *[Financial Report/ Performance Report]***

*[Those Charged with Governance]* are responsible on behalf of the entity for:

- The preparation, and fair presentation of the *[financial report/ performance report]* in accordance with the applicable financial reporting framework;
- The selection of elements/aspects of service performance information, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in

<sup>19</sup> May also be referred to as the Statement of Service Performance.

<sup>20</sup> Use the term that is appropriate in the context of the engagement.

accordance with *[the applicable financial reporting framework]*;

- The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with *[the applicable financial reporting framework]*;
- The overall presentation, structure and content of the service performance information in accordance with *[the applicable financial reporting framework]*; and
- Such internal control as *[Those Charged with Governance]* determine is necessary to enable the preparation of the *[financial report/ performance report]* that is free from material misstatement, whether due to fraud or error.

### **Assurance Practitioner's Responsibilities**

Our responsibility is to express a conclusion on the *[financial report/ performance report]*. We conducted our review of the financial statements in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity*, and *[entity information and]* service performance information in accordance with the New Zealand Standard on Review Engagements (NZ SRE) 1 *Review of Service Performance Information*. Those standards require us to conclude whether anything has come to our attention that causes us to believe that: the *[financial report/ performance report]*, taken as a whole, do not present fairly, in all material respects, in accordance with *[the applicable financial reporting framework (e.g., Reporting Requirements for Tier 3 Not-for-Profit Entities)]*; and the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with *[the applicable financial reporting framework]*.

Those standards also require that we comply with relevant ethical requirements.

A review of the *[financial report/ performance report]* in accordance with ISRE (NZ) 2400 and NZ SRE 1 is a limited assurance engagement. The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures and, as we considered necessary in the circumstances, other procedures; and evaluate the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board. Accordingly, we do not express an audit opinion on the *[financial report/ performance report]*.

Other than in our capacity as assurance practitioner we have no relationship with, or interests in, the entity.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe: that the accompanying *[financial report/ performance report]* do not present fairly, in all material respects:

- *[the entity information as at December 31, 20X3;]*
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
- 
- the service performance for the year ended December 31, 20X3

- o in that the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods

in accordance with [*the applicable financial reporting framework (e.g.: Reporting Requirements for Tier 3 Not-for-Profit Entities)*] issued by the New Zealand Accounting Standards Board.

[*Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate*]

[*Assurance practitioner's address*]

[*Date*]

DRAFT

## **Appendix 4**

(Ref: Para. A56)

### **Illustrations of Assurance Practitioner's Reports with Modified Conclusions with respect to Service Performance Information**

Illustration 1: Qualified conclusion on service performance information – the assurance practitioner is unable to obtain sufficient appropriate evidence.

Illustration 2: Qualified conclusion on both the financial statements and the service performance information – the assurance practitioner is unable to obtain sufficient appropriate evidence about a single element of the financial statements.

*The following examples of extracts from modified assurance practitioner's report are for guidance only and are not intended to be exhaustive or applicable to all situations. They are based on the example report in Appendix 3.*

**Illustration 1: Qualified conclusion on service performance information – the assurance practitioner is unable to obtain sufficient appropriate evidence.**

...

#### **Basis for Qualified Conclusion on the Service Performance Information**

Supporting records for the [significant activities undertaken] were not readily available and we were unable to perform alternative procedures. Consequently, we have been unable to obtain sufficient appropriate evidence to support the reported [significant activities undertaken] and we are unable to determine whether any adjustments to these amounts are necessary.

#### **Qualified Conclusion on the Service Performance Information**

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion on the Service Performance Information paragraph, nothing has come to our attention that causes us to believe:

- that the accompanying [financial report/ performance report] do not present fairly, in all material respects the service performance for the year ended December 31, 20X3 in that the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods

in accordance with [the applicable financial reporting framework (e.g.: PBE Standards)] issued by the New Zealand Accounting Standards Board.

#### **Conclusion on the [Entity Information and the] Financial Statements**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying [financial report/ performance report] do not present fairly, in all material respects:

- [the entity information as at December 31, 20X3; and]
- the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended

in accordance with [the applicable financial reporting framework (e.g.: PBE Standards)] issued by the New Zealand Accounting Standards Board.

...

**Illustration 2:** Qualified conclusion on both the financial statements and the service performance information – the assurance practitioner is unable to obtain sufficient appropriate evidence about a single element of the financial statements, which is also reported as service performance information.

...

#### **Basis for Qualified Conclusion**

As outlined on page xx of the [financial report/ performance report], entity has not applied the requirements of the applicable financial reporting framework to its grant expenditure. We have been unable to obtain sufficient appropriate evidence to quantify the effects of this limitation. As a result of this matter, we were unable to quantify the adjustments that are necessary in respect of grant expenditure in the [statement of comprehensive revenue and expense]; assets, liabilities and equity in the statement of financial position, [total comprehensive revenue and expense and opening and closing equity in the statement of changes in equity] and grants expense reported in the service performance information.

#### **Qualified Conclusion**

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe:

- that the accompanying [financial report/ performance report] do not present fairly, in all material respects:
  - [the entity information as at December 31, 20X3;]
  - the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
  - the service performance for the year ended December 31, 20X3 in that the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods

in accordance with [the applicable financial reporting framework (e.g.: PBE Standards)] issued by the New Zealand Accounting Standards Board.

## NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 7.1

**Meeting date:** 3 April 2024

**Subject:** Fraud in an audit of financial statements

**Date:** 20 March 2024

**Prepared By:** Sharon Walker

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**Action Required**

**For Information Purposes Only**

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### **Agenda Item Objective**

1. The objective of this agenda item is for the Board to approve the XRB submission on the IAASB's exposure draft dealing with fraud in an audit of financial statements.

### **Background**

2. The IAASB issued its exposure draft of a proposed revised auditing standard on fraud in February 2024. Submissions are due 5 June 2024.
3. An overview of the exposure draft was presented to Board at its February 2024 meeting. The project aims to:
  - change the way the auditor thinks about fraud, and
  - how the auditor communicates about fraud and the auditor's responsibilities related to fraud in the auditor's report.
4. The fundamental responsibilities of an auditor are not changed.
5. The exposure draft has been posted on the XRB website. We held a virtual feedback forum on March 13 which was attended by 28 participants. The results of polls conducted during the feedback forum are included in the appendix.
6. We also heard some informative discussion and have gathered feedback from the events with Tom Seidenstein in late February.
7. We will be presenting to XRAP on 26 March meeting. We are interested in XRAP member views on whether and how the proposed changes will address or change behaviour across the financial reporting ecosystem. A number of the XRAP members attended the Tom Seidenstein events or the feedback forum. We will provide a verbal update of feedback received from XRAP.
8. Drafting of our response is in the early stages of development. We do expect to receive submissions on this exposure draft. These will need to be taken into account in finalising the XRB submission. Our consultation on this exposure draft closes on 15 May.
9. Our draft response is presented in the IAASB response template at agenda item 7.2. The grey shaded boxes set out our thinking in developing the response.

This does not form part of the response but has been included so the board members can follow our thinking.

10. Our key messages include:

- Agreement with the auditor’s responsibilities. We support decoupling the auditor’s responsibilities from the inherent limitations of the audit. We agree with focussing on the auditor’s responsibility, i.e., to obtain reasonable assurance about whether the financial statements are materially misstated whether due to fraud or error.
- Agreement with applying a fraud lens over the risk assessment and identification. Lifting the game on fraud means thinking more about fraud.
- We understand and support the idea of improving transparency through communicating key audit matters related to fraud. We recognise that this is the lever that the IAASB has available to encourage better reporting through the financial reporting ecosystem. However, we are concerned that this may further widen the audit expectation gap when management and those charged with governance do not have an obligation to report how they manage and deal with fraud.

**Action requested**

11. We are asking the Board to approve the XRB submission which is drafted based on the feedback we have received to date.

**Material Presented**

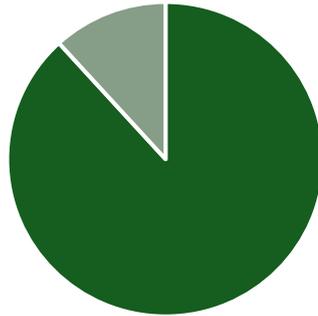
Agenda item 7.1	Board Meeting Summary Paper
Agenda item 7.2	Draft submission on fraud ED

**Virtual feedback forum on fraud in an audit of financial statements**

Held: Wednesday 13 March, 1:30pm-2:30pm

Poll question 1

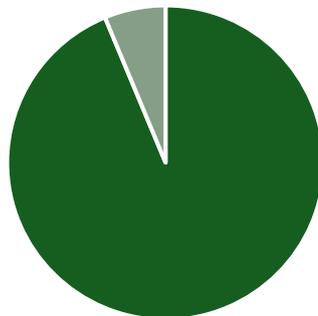
Do you agree that the ED clearly sets out the auditor's responsibilities relating to fraud in an audit of financial statements?



■ Yes 15 ■ No 2

Poll question 2

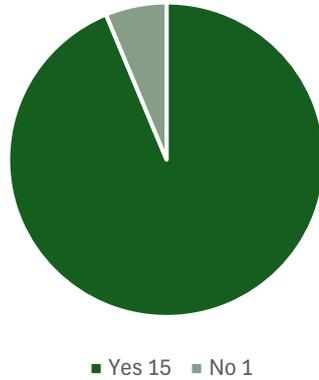
Do you agree that the ED establishes robust work effort requirements to address circumstances when instances of fraud or suspected fraud are identified in the audit?



■ Yes 15 ■ No 1

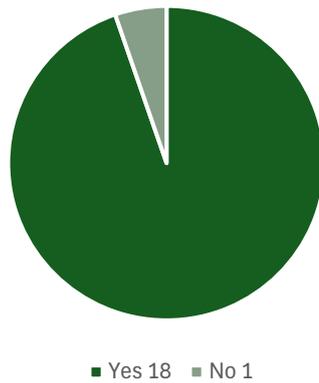
Poll question 3

Do you agree that the ED establishes robust work effort requirements to address circumstances when instances of fraud or suspected fraud are identified in the audit?



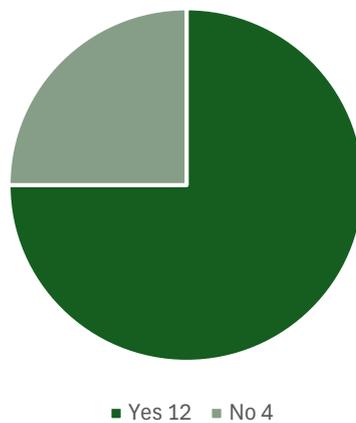
Poll question 4

Do you agree that the ED appropriately enhances transparency about matters related to fraud in the auditor's report?



Poll question 5

Should the transparency requirements be expanded beyond listed entities, e.g., to public interest entities?



## PART B: Responses to Questions for Respondents in the EM for the ED

*For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.*

### *Responsibilities of the Auditor*

1. Does ED-240 clearly set out the auditor's responsibilities relating to fraud in an audit of financial statements, including those relating to non-material fraud and third-party fraud?

*(See EM, Section 1-C, paragraphs 13–18 and Section 1-J, paragraphs 91–92)*

*(See ED, paragraphs 1–11 and 14)*

**Overall response:** [Agree, with comments below](#)

#### **Detailed comments (if any):**

*We agree that ED-240 clearly sets out the auditor's responsibilities relating to fraud in an audit of financial statements. We agree that separating out the inherent limitations adds clarity to the auditor's responsibilities.*

#### *Information to assist NZAuASB deliberations*

- *Polling question 1: Do you agree that the ED clearly sets out the auditor's responsibilities relating to fraud in an audit of financial statements? Total responses 17: Yes 15; No 2*
- *While management and those charged with governance have primary responsibility for preventing and detecting fraud, the auditor has an important role to play. The focus of the ED is on the auditor's responsibilities.*
- *The objective of the auditor has not changed. The objective is to obtain reasonable assurance that the financial statements are free from material misstatement whether due to fraud or error.*
- *Inherent limitations mean the risk of not detecting a material misstatement is higher for fraud than from error, but this does not diminish the auditor's responsibilities. The auditor needs to plan and perform the engagement to obtain reasonable assurance about whether the financial statements are free from material misstatement.*
- *The ED explains that the determination of whether fraud is material to the financial statements involves the exercise of professional judgement, taking into consideration both quantitative and qualitative factors. Even when an identified misstatement is not quantitatively material, it may be qualitatively material depending on who perpetrated it and why.*

### *Professional Skepticism*

2. Does ED-240 reinforce the exercise of professional skepticism about matters relating to fraud in an audit of financial statements?

*(See EM, Section 1-D, paragraphs 19–28)*

(See ED, paragraphs 12–13 and 19–21)

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

*We agree that ED-240 reinforces the exercise of professional scepticism about fraud-related matters in an audit of financial statements. We found the addition of examples in the application material helpful to apply professional scepticism.*

### *Risk Identification and Assessment*

3. Does ED-240 appropriately build on the foundational requirements in ISA 315 (Revised 2019)<sup>1</sup> and other ISAs to support a more robust risk identification and assessment as it relates to fraud in an audit of financial statements?

(See EM, Section 1-F, paragraphs 36–46)

(See ED, paragraphs 26–42)

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

*We agree that ED-240 appropriately builds on the foundational requirements in ISA 315, supporting a more robust risk assessment process related to fraud in the audit of financial statements. The requirements and application material in ED-240 require the auditor to think more critically about fraud.*

### *Information to assist NZAuASB deliberations*

- *Polling question 2 Do you agree that the ED appropriately supports a more robust risk identification and assessment as it relates to fraud in an audit of financial statements? Total responses 16: Yes 15; No 1*
- *The ED applies a fraud lens over the risk assessment and identification process required by ISA 315. The IAASB is lifting the bar on how the auditor thinks about fraud. Consideration of fraud is integral to the audit – it's not something that should be thought about after the risk assessment has been completed. The auditor should be thinking about fraud at the same time as they are thinking about error.*
- *We have heard concerns from one stakeholder about the practical challenges of applying the new risk assessment standard. ISA 315 requires separate consideration of inherent risk and control risk at the assertion level. Appendix 1 to the ED provides examples of fraud risk factors that may be faced by auditors in a broad range of situations. Fraud risk factors may relate to incentives or pressures, or opportunities that arise from conditions that create susceptibility to misstatement before consideration of controls. The auditor assesses inherent risk by assessing*

<sup>1</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

*the likelihood and magnitude of misstatement. The concern expressed is not specific to fraud, but rather about practical challenges with applying the risk assessment requirements in general. This concern has been discussed with the reference group meetings, noting that other members of the reference group have not raised the same concern.*

*Fraud or Suspected Fraud*

4. Does ED-240 establish robust work effort requirements and application material to address circumstances when instances of fraud or suspected fraud are identified in the audit?

*(See EM, Section 1-G, paragraphs 47–57 and Section 1-E, paragraph 35)*

*(See ED, paragraphs 55–59 and 66–69)*

**Overall response:** [Agree \(with no further comments\)](#)

**Detailed comments (if any):**

*Information to assist NZAuASB deliberations*

*Poll results. Do you agree that the ED establishes robust work effort requirements to address circumstances when instances of fraud or suspected fraud are identified in the audit? Total responses 16: Yes 16; No 0*

*New requirement to obtain an understanding of the fraud – this is explicit in the ED, whereas it is implicit in the existing standard. Other requirements have been relocated into the new section dealing with identified or suspected fraud. Some of the requirements are specifically required to be performed by the engagement partner.*

*Transparency on Fraud-Related Responsibilities and Procedures in the Auditor's Report*

5. Does ED-240 appropriately enhance transparency about matters related to fraud in the auditor's report?

*(See EM, Section 1-H, paragraphs 58–78)*

*(See ED, paragraphs 61–64)*

**Overall response:** [Disagree, with comments below](#)

**Detailed comments (if any):**

*We commend the IAASB on its efforts to enhance transparency through applying the key audit matter mechanism to fraud related matters. We agree that this is an appropriate mechanism to enhance transparency. However, while we support the intent of the IAASB, we are concerned that the proposal will widen the expectation gap without a corresponding statement from management or those charged with governance. Therefore, on balance, we do not consider that ED-240 appropriately enhances transparency about matters related to fraud in the auditor's report.*

## Agenda item 7.2

*We are fully supportive of lifting the game by changing the way the auditor thinks about fraud, in the risk assessment and performance of procedures, and in communicating fraud related matters to those charged with governance. While we appreciate the desire of the IAASB to balance the consideration of fraud and error and to create transparency in the auditor's report about fraud related matters, we question whether these proposals are tipping the scales too far towards fraud.*

*To address the expectation gap a whole of ecosystem response is required. Management and those charged with governance have primary responsibility for the prevention and detection of fraud. In jurisdictions, for example, the UK where enhancements have been made to the auditing standard, there is also a corresponding responsibility for directors to report on their actions.*

*Paragraph A163 of ED-240 states, "users of the financial statements have expressed an interest in matters related to fraud about which the auditor had a robust dialogue with governance and have called for additional transparency about those communications." Is it not the directors of the entity that have ultimate responsibility for communicating first and foremost with the users?*

*We encourage the IAASB to continue to work with other participants in the financial reporting system to develop an ecosystem response that supports the decision-useful information that users need.*

*Paragraph A165 states, "matters related to fraud are **often** [emphasis added] matters that require significant auditor attention." Under the IAASB's CUSP drafting principles and guidelines, the term "often" denotes the second highest probability of occurrence. This seems to set up the expectation that in most instances a fraud-related key audit matter would be reported. In our view, whether a matter requires significant auditor attention is what should drive its reporting as a key audit matter, and the determination of what is to be reported is matter of auditor judgement.*

*We also encourage the IAASB to continue to use the existing heading "key audit matters". We do not believe the words "including matters related to fraud" is necessary.*

### *Information to assist NZAuASB deliberations*

- Polling question 4 Do you agree that the ED appropriately enhances transparency about matters related to fraud in the auditor's report? Total responses 19: Yes 18; No 1.*
- Balancing against the poll results, we have heard concerns from feedback forum participants, reference group members and Board members about the potential to widen the expectation gap. On balance, we have landed on a position where, while we support the intent of the IAASB, we do not support this proposal in the ED.*
- Key audit matters should be focused on areas of significant auditor attention. Should not mandate fraud KAMs. Also discomfort around saying that there are no fraud-related KAMs.*
- We understand the intent of the IAASB in requiring transparency in the auditor's about how the auditor has control the risk of fraud in the audit of the financial statements. Research indicates KAMs are valuable. Key is encouraging communication with TCWG.*
- The clarification of the auditor's responsibilities and the application of the fraud lens in the auditor's identification and assessment of risk are important in driving a change in the way the auditor thinks about fraud. While the auditor has a critical role to play in the prevention and detection of fraud, however, the primary responsibility lies with management and those charged with governance.*

- *An auditor response on fraud should be linked to an assertion by management.*
- *We acknowledge the IAASB's commitment to leverage enhancements adopted by other jurisdictions relation to fraud-related standards. However, we note that in the UK, directors are required to report on their actions to detect and prevent material fraud. Putting the onus on the auditor to address fraud related matters without corresponding statements from management and those charged with governance goes a step too far.*
- *Matters related to fraud are "often" matters that require significant auditor attention. CUSP indicates "often" intended to be second most frequency. What does this mean? Where is auditor judgement? Is the intent that the fraud-related matters will always be discussed? Determining what is a key audit matter requires judgement – it should be matters that required significant auditor attention.*

6. In your view, should transparency in the auditor's report about matters related to fraud introduced in ED-240 be applicable to audits of financial statements of entities other than listed entities, such as PIEs?

*(See EM, Section 1-H, paragraphs 76–77)*

*(See ED, paragraphs 61–64)*

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

*Notwithstanding our response to question 5, if the transparency requirement is introduced, we agree that it should be applicable to public interest entities, as defined using the global "top down" definition. However, as noted in our response to the IAASB's narrow scope amendments, we seek clarification if it is the intent of the IAASB that all entities identified as public interest entities under the code of ethics would also be captured as public interest entities under the assurance standards, at a local level, given that the definition requires both a "top down" or "bottom up" approach, or was the intent that conceptually the highest requirements should apply to the same group of entities.*

*Information to assist NZAuASB deliberations*

*Polling question 5 Should the transparency requirements be expanded beyond listed entities, e.g., to public interest entities? Total responses 16: Yes 12; No 4.*

*A respondent that did not support expanding the requirement to public interest entities was concerned about compliance costs, particularly for large charities i.e., where is the value?*

*Notwithstanding our comments on question 5, assuming the transparency requirement is introduced, we support expanding its application to public interest entities. See also our response on the IAASB's narrow scope amendments.*

*In New Zealand, key audit matters are already required for the types of entities contemplated by the "top down" global definition, including listed entities, deposit takers and insurers. We seek clarification if it is the intent of the IAASB that all entities identified as public interest entities under the code of ethics would also be captured as public interest entities under the assurance standards, at a local level, given that the*

definition requires both a “top down” or “bottom up” approach, or was the intent that conceptually the highest requirements should apply to the same group of entities.

*Considering a Separate Stand-back Requirement in ED-240*

7. Do you agree with the IAASB’s decision not to include a separate stand-back requirement in ED-240 (i.e., to evaluate all relevant audit evidence obtained, whether corroborative or contradictory, and whether sufficient appropriate audit evidence has been obtained in responding to the assessed risks of material misstatement due to fraud)?

(See EM, Section 1-J, paragraphs 107–109)

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

We support the IAASB decision not to include a separate stand-back requirement in ED-240. The auditor’s consideration of fraud is integral to the audit. We consider that the general stand-backs already in place, for example in ISA 315 and ISA 330, address both fraud and error and are sufficient.

*Scalability*

8. Do you believe that the IAASB has appropriately integrated scalability considerations in ED-240 (i.e., scalable to entities of different sizes and complexities, given that matters related to fraud in an audit of financial statements are relevant to audits of all entities, regardless of size or complexity)?

(See EM, Section 1-J, paragraph 113)

Overall response: [Agree \(with no further comments\)](#)

Detailed comments (if any):

*Linkages to Other ISAs*

9. Does ED-240 have appropriate linkages to other ISAs (e.g., ISA 200,<sup>2</sup> ISA 220 (Revised),<sup>3</sup> ISA 315 (Revised 2019), ISA 330,<sup>4</sup> ISA 500,<sup>5</sup> ISA 520,<sup>6</sup> ISA 540 (Revised)<sup>7</sup> and ISA 701<sup>8</sup>) to promote the application of the ISAs in an integrated manner?

(See EM, Section 1-J, paragraphs 81–84)

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

*When the IAASB issued ISA for LCE, it indicated there would be a period of stability. Given entities of all sizes and complexities are susceptible to fraud and ED-240 requires the auditor to think more about fraud through applying the fraud lens, we encourage the IAASB to give thought to when would be an appropriate time to revise the ISA for LCE standard in line with the revised fraud standard, once finalised.*

### *Other Matters*

10. Are there any other matters you would like to raise in relation to ED-240? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

**Overall response:** [Yes, with comments below](#)

**Detailed comments (if any):**

*In our outreach we heard concerns, particularly from small and medium practices, regarding the challenge of how they translate their thinking about fraud into their audit workpapers. We believe first time implementation guidance might be helpful in this regard.*

### *Translations*

11. Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-240.

**Overall response:** [No response](#)

**Detailed comments (if any):**

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<sup>2</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>3</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>4</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>5</sup> ISA 500, *Audit Evidence*

<sup>6</sup> ISA 520, *Analytical Procedures*

<sup>7</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>8</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

*Effective Date*

12. Given the need for national due process and translation, as applicable, and the need to coordinate effective dates with the Going Concern project and the Listed Entity and PIE – Track 2 project, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final standard. Earlier application would be permitted and encouraged. Would this provide a sufficient period to support effective implementation of the ISA?

*(See EM, Section 1-J, paragraphs 115–116)*

*(See ED, paragraph 16)*

**Overall response:** [No response](#)

**Detailed comments (if any):**

*Information to assist NZAuASB deliberations*

- *Supportive.*
- *Agree that the effective date of the going concern standard and the fraud standard should be coordinated.*

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	8.1
<b>Meeting date:</b>	3 April 2024
<b>Subject:</b>	Narrow Scope Amendments: Public Interest Entity
<b>Date:</b>	20 March 2024
<b>Prepared By:</b>	Sharon Walker

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

1. The objective of this agenda item is for the NZAuASB to approve the submission to the IAASB on proposed narrow scope amendments to the international auditing and assurance standards as a result of revisions to the definitions of listed entity and public interest entity in the international code of ethics.

### Background

2. The International Auditing and Assurance Standards Board (IAASB) issued its exposure draft in January 2024 for a 90 day consultation with submissions due 8 April 2024.
3. The objectives of the IAASB are to achieve convergence to the greatest extent possible between the definitions and key concepts used in the international auditing and assurance and ethical standards, and to determine whether, and the extent to which, the applicability of the existing differential requirements should be expanded to apply to public interest entities.
4. Due to the narrow scope of the project, we have undertaken limited consultation on the international proposals. We are exploring separately the impact of the proposals domestically.
5. We included a direct link to the IAASB consultation on the XRB website. To raise awareness of the exposure draft among New Zealand constituents we included the link in Auditing and Assurance Alerts and on LinkedIn posts. In our domestic consultation we encouraged NZ constituents who wished to share thoughts to inform our submission to the IAASB to contact us by 15 March. We have received no comments.
6. We also met with other national standard setters including representatives from Australia and Canada to discuss the proposals.
7. Our draft submission is included in agenda item 8.2. Key messages included in the draft submission include:
  - While supportive, conceptually, of aligning the definition of public interest entity with the IESBA definition, we encourage the IAASB to better communicate why it is in the public interest for each of the differential requirements to apply to the broader set of entities.
  - Concern that application of the differential requirement for engagement quality reviews is being expanded so soon after the quality management project has been completed. The application of the engagement quality review requirements was consulted on as part of the quality management project. ISQM 1 requires an engagement quality review

when the firm determines that an engagement quality review is an appropriate response to address a quality risk<sup>1</sup> and we question whether there is strong enough evidence to support expanding the differential requirement at this time.

- Agreeing with expanding the application of the differential requirement for key audit matters, but requesting clarification whether the intent of the IAASB is that the differential requirement would apply to only those entities contemplated by the “top-down” global definition.

### **Action requested**

8. We ask the Board to approve the New Zealand submission on the proposed Narrow Scope Amendments.

### **Material Presented**

Agenda item 8.1	Board Meeting Summary Paper
Agenda item 8.2	Draft response to IAASB Narrow Scope consultation

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<sup>1</sup> Extant ISQM 1, paragraph 34(f), requires engagement quality reviews for:

- (i) Audits of financial statements of listed entities;
- (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and
- (iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risks.

## PART B: Responses to Specific Questions in the EM for the ED

*For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.*

### *Objective for Establishing Differential Requirements for PIEs*

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

*(See EM Section 1-B, paragraphs 13-18)*

**Overall response:**     [Disagree, with comments below](#)

**Detailed comments (if any):**

*While we understand the rationale for differential requirements in the IAASB standards, and we support aligning key terms and definitions used in the international standards, we question the appropriateness of expanding all the differential requirements to apply to public interest entities. We encourage the IAASB to better communicate why it is in the public interest for each of the differential requirements to apply to this broader set of entities. Are we aligning the for alignments sake?*

*The public interest entity definition in the Code of Ethics was developed for the purpose of addressing independence considerations. While we agree that users of the financial statements and auditor's report of certain entities may have heightened expectations for independence, there is no evidence that these heightened expectations apply equally, in the context of the IAASB's standards, to all entities captured by the public interest entity definition in the context of the specific differential requirements.*

*It is unclear whether the IAASB's intent is that all entities identified as public interest entities under the international code of ethics would also be captured as public interest entities under the IAASB definition, and we seek clarification on this point.*

*In paragraph A29G, the addition of the sentence "when making this determination, the firm may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence," has raised the question of whether some entities might be treated as public interest entities for purposes of the IAASB differential requirements, that would not otherwise be treated as public interest entities under the international code of ethics or vice versa.*

### *Definitions of PIE and "Publicly Traded Entity"*

2. Do you agree with adopting the definitions of PIE and "publicly traded entity" into ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A–16(p)B of ISQM 1 and paragraphs 13(l)A–13(l)B of ISA 200 in the ED)? If not, what do you propose and why?

*(See EM Section 1-C, paragraphs 19-26)*

**Overall response:**     [Disagree, with comments below](#)

**Detailed comments (if any):**

We commend the IAASB for working closely with the IESBA. Conceptually, we are supportive of consistency of key terms and definitions between the international auditing and assurance standards and the international code of ethics.

However, we are concerned about its proposed application in the context of the differential requirements in the auditing and assurance standards, as discussed in our further comments on each of the differential requirements, and unclear that an appropriate cost benefit analysis has been undertaken to rationalize expanding the application of these requirements to all public interest entities. Are we aligning the requirements to public interest entities for alignments sake?

We agree with the proposed definitions of public interest entity and publicly traded entity on the basis of consistency with the international code of ethics.

We are supportive of the proposed application material in paragraphs A29A-A29B of ISQM 1 and paragraphs A81A-A81B of ISA 200. In our view this application directly supports the definition of public interest entity included in proposed paragraphs 16(p)A of ISQM 1 and 13(l)A of ISA 200, and should be linked thereto as it includes useful context for the application of the term when it is referred to in the differential requirements explored in each question below.

We question the purpose of the proposed requirements in paragraphs 18A of ISQM 1 and 23A of ISA 200 requiring the firm to treat an entity as a public interest in accordance with the definition, and question the need for such a requirement. The definition and its application material should be sufficient to stand on its own. Other defined terms do not come with a requirement to apply the defined term. Accordingly, we recommend that paragraphs 18A of ISQM 1 and 23A of ISA 200 be deleted.

*Differential Requirements in the ISQMs and ISAs*

3A. Do you agree with the IAASB's proposals for extending the extant differential requirements for engagement quality reviews to apply to PIEs (ISQM 1, paragraph 34(f) in the ED)?

(See EM Section 1-D, paragraphs 27-40 and Appendix 1)

**Overall response:** [Disagree, with comments below](#)

**Detailed comments (if any):**

We are concerned at the proposal to expand the application of requirements for engagement quality reviews so soon after the introduction of ISQM 1. In particular, we are concerned that the application of the differential requirement for engagement quality reviews is being expanded without regard to the firm's response to quality risks required by ISQM 1.

We are further concerned that expanding the differential requirement to public interest entities will undermine the scalability of ISQM 1. We understand that smaller firms and sole practitioners struggle to resource this requirement.

ISQM 1 has only recently been issued and the application of the engagement quality review requirement was heavily consulted on at the time. There has not yet been time to undertake a post implementation review or other form of research and ascertain whether there is a need to expand the requirements further. We do not believe there is strong enough evidence to support the expansion of mandatory engagement quality review at this time.

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

**Detailed comments (if any):**

*We recommend that before expanding the requirement for an engagement quality review beyond the current requirements more evidence is needed. Are there examples of engagement quality reviews not being undertaken for entities that the IAASB consider it would be in the public interest to do so?*

3B. Do you agree with the IAASB's proposals for extending the extant differential requirements for communication with TCWG about the firm's system of quality management to apply to PIEs (ISQM 1, paragraph 34(e) in the ED)?

*(See EM Section 1-D, paragraphs 27-38 and Appendix 1)*

**Overall response:** [Agree \(with no further comments\)](#)

**Detailed comments (if any):**

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

**Detailed comments (if any):**

3C. Do you agree with the IAASB's proposals for extending the extant differential requirements for communicating about auditor independence to apply to PIEs (ISA 260 (Revised), paragraphs 17 and 17A, and ISA 700 (Revised), paragraph 40(b) in the ED)?

*(See EM Section 1-D, paragraphs 27-38 and 41-45 and Appendix 1)*

**Overall response:** [Agree \(with no further comments\)](#)

**Detailed comments (if any):**

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

**Detailed comments (if any):**

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3D. Do you agree with the IAASB’s proposals for extending the extant differential requirements for communicating KAM to apply to PIEs (ISA 700 (Revised), paragraphs 30-31, 40(c) and ISA 701, paragraph 5 in the ED)?

(See EM Section 1-D, paragraphs 27-38 and 46 and Appendix 1)

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

*We support expanding the application of key audit matters.*

*In New Zealand, key audit matters are already required for the types of entities contemplated by the “top down” global definition, including listed entities, deposit takers and insurers.*

*Our Trust and Confidence: Views from Audit Committee Chairs research report issued in 2023 highlights the value of key audit matters.*

*We also note that key audit matters are voluntarily reported in audit reports issued by the Office of the Auditor-General in a few public sector audits, as well as for audits of some non-for-profit entities.*

*However, the XRB has not required the reporting of KAMs for all entities as defined as public interest entities in the New Zealand Code of Ethics. We seek clarification if it is the intent of the IAASB that all entities identified as public interest entities under the code of ethics would also be captured as public interest entities under the assurance standards, at a local level, given that the definition requires both a “top down” or “bottom up” approach, or was the intent that conceptually the highest requirements should apply to the same group of entities.*

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

**Detailed comments (if any):**

3E. Do you agree with the IAASB’s proposals for extending the extant differential requirements for the name of the engagement partner to apply to PIEs (ISA 700 (Revised), paragraphs 46 and 50(l))?

(See EM Section 1-D, paragraphs 27-38 and Appendix 1)

**Overall response:** [Agree \(with no further comments\)](#)

**Detailed comments (if any):**

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

**Detailed comments (if any):**

4. Do you agree with the IAASB's proposal to amend the applicability of the differential requirements for listed entities in ISA 720 (Revised) to apply to "publicly traded entity"? If not, what do you propose and why?

*(See EM Section 1-D, paragraphs 47-51)*

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

*We agree with the IAASB recommendation not to extend the differential requirements in ISA 720 to public interest entities, but rather to publicly traded entities.*

*Practitioners in New Zealand have cited practical challenges and difficulties in implementing the requirements. Accordingly, we agree that it is not in the public interest to expand the requirement to public interest entities at this time.*

*Proposed Revisions to ISRE 2400 (Revised)*

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

*(See EM Section 1-E, paragraphs 52-57)*

**Overall response:** [Agree \(with no further comments\)](#)

**Detailed comments (if any):**

*Other Matters*

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

**Overall response:** [No response](#)

**Detailed comments (if any):**

DRAFT

**NZAuASB Board Meeting Summary Paper**

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**AGENDA ITEM NO.** 9.1  
**Meeting date:** 3 April 2024  
**Subject:** Environmental scan – international  
**Date:** 20 March 2024  
**Prepared By:** Anna Herlender

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 **Action Required** **For Information Purposes Only**

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**Agenda Item Objectives**

1. This update identifies the significant developments, relevant to auditing and assurance, from international organisations published since 31 January 2024. This agenda item is for information purposes.

**Background**

2. The updates from international organisations have been categorised into topics and their relevance to the NZAuASB work plan:
  - a. **Category 1: Hot topics** includes articles considered to be of highest interest to the Board and directly linked with the issues explored during recent or coming Board's meetings
  - b. **Category 2: Other publications** includes articles relating to the Board's work plan or from the organisations with direct impact on emerging audit and assurance issues
  - c. **Category 3: Wider scan** includes articles that might be of interest to the Board members, provide wider perspective on current Board's topics or topics that might arise in future.
3. Appendix 1 includes list of organisations whose websites were reviewed for updates.
4. NZAuASB environmental scans focus on topics relating to auditing and assurance matters. Agenda Item 9.3 includes the wider environmental scan that was prepared for the latest XRB and NZASB meeting. It might include matters not directly relating to audit or assurance but relating to XRB organisation. It is provided to NZAuASB for information purposes (after removing articles with restricted access/copyrights attached).

### Category 1: Hot topics

**Hot topic 1:** Monitoring Group Pleased to Report Strong Progress Implementing Recommendations to Strengthen the International Audit, Assurance, Ethics, and Independence Standard-Setting System, 6 February 2024, [Read here](#).

The Public Interest Oversight Board (PIOB) has established the first Stakeholder Advisory Council (SAC) to the International Ethics Standards Board for Accountants (IESBA) and the International Auditing and Assurance Standards Board (IAASB), 6 February 2024, [Read here](#).

The above releases relate to further changes in the global standard setting environments, further milestones in implementing Monitoring Group recommendations.

**Hot topic 2:** IAF and IESBA Join Forces to Support Growth in the Market for High-Quality Sustainability Information, 5 February 2024, [Read here](#).

This is important development for the sustainability ethics and independence.

**Hot topic 3:** IESBA Staff Releases a High-Level Summary of Prohibitions in the IESBA Code for Audits of Public Interest Entities, 18 March 2024, [Read here](#).

Non-authoritative guidance issued by the IESBA, might be also helpful in understanding of the impacts on PIEs in the sustainability proposal.

**Hot topic 4:** IAASB Launches New Video Series and Global Webinar to Understand the ISA for LCE, 11 March 2024. The newly released video series details important aspects of the standard:

- [Exploring the Benefits](#): Learn more about the objectives, benefits, and its distinguishing features compared to the full suite of ISAs.
- [A Closer Look at Applicability and Use](#): Understand the conditions under which the standard can be applied, including the role of legislative and regulatory authorities.
- [A Step-by-Step Walkthrough](#): Gain an in-depth understanding of the standard's design principles, structure, and content layout"

**Hot topic 5:** Sustainability Reporting and Assurance Practices of Largest Global Companies Continue to Mature, IFAC, AICPA & CIMA Study Shows, 22 February 2024.

- 98% of companies reported some level of detail on sustainability
- 69% obtained assurance on at least some of their sustainability disclosures
- The mix of reporting standards used by companies remains fragmented

"The largest global companies are providing more detail and breadth in their sustainability reporting, and also are obtaining a greater scope of assurance on those disclosures, according to an updated report from the International Federation of Accountants (IFAC) and AICPA & CIMA. The study, an annual benchmark that now includes 2022 data, also found the use of varying sustainability standards and frameworks continues to make it difficult for investors, lenders, and other stakeholders to find consistent and comparable sustainability information."

[Read the full IFAC announcement here.](#)

[Read the full report here.](#)

**Hot topic 6:** IFRS Foundation publishes summary of national accounting standard-setters' research on materiality judgement guidance, 27 January 2024, [Read here](#).

**Hot topic 7:** AUASB releases Consultation on Assurance Over Climate and Other Sustainability Information. [Read here.](#)

The AUSASB released their [consultation paper](#) on 20 March 2023, with comments requested by 3 May 2024. They are seeking feedback on:

- developing a proposed model for phasing in assurance over mandatory climate information;
- a proposal to adopt ISSA 5000 *General Requirements for Sustainability Assurance Engagements* in Australia; and
- developing a possible local pronouncement to supplement the final ISSA 5000 under the Australian reporting framework.

**Hot Topic 8:** UK FRC launches market study on UK sustainability assurance market, 21 March 2023, [Read here.](#)

The study is expected to conclude in early 2025 and will include the following topics:

- Choice, quality and competition in the sustainability assurance market
- Capacity constraints and barriers to entry or expansion
- Potential impacts from changing international regulations
- Any interplay between the sustainability assurance and statutory audit market.

### **Category 2: Other relevant publications**

#### **Comments on IESSA:**

Global watchdog proposes new ethics code to combat greenwashing, Reuters, 30 January 2024, [Read here.](#)

#### **Fraud and NOCLAR**

The auditor's approach to fraud: Enhanced with forensics, AICPA&CIMA, 6 March 2024, [Read here.](#)

Institutional Investor Survey on Fraud and NOCLAR in US, CAQ, 20 February 2024, [Read here.](#)

#### **Oversight**

IFIAR released its twelfth annual survey of inspection findings arising from its member regulators' individual inspections of audit firms affiliated with the six largest global audit firm networks, 18 March 2024, [Read here.](#)

FRC takes systemic look at barriers to competition in UK audit market, 1 Feb 2024, [Read here.](#)

Review of reporting by the UK's largest private companies, FRC, 31 January 2024, [Read here](#)

A PCAOB Staff Report Provides Insights and Reminders for Auditors Regarding Potential Factors Contributing to High Deficiency Rates in Broker-Dealer Engagements, January 2024, [Read here.](#)

An Investor Protection Call for a Commitment to Professional Skepticism and Audit Quality, statement by Paul Munter, SEC Chief Accountant, 5 Feb 2024, [Read here.](#)

#### **Climate related disclosures, including GHG Scope 1 and 2, in US**

SEC Adopts Rules to Enhance and Standardize Climate-Related Disclosures for Investors, 6 March 2024, [Read here.](#)

“The SEC’s Climate Disclosure Rule: How Can Businesses Prepare?”, Manifest Climate, 6 March 2024, [Read here](#).

Summary of the Enhancement and Standardization of Climate-Related Disclosures for Investors, CAQ, 18 March 2024, [Read here](#).

### **Category 3: wider scan relating to audit and assurance ecosystem**

#### **Nature related reporting**

New UNEP-FI report reviews 7 nature-related assessment and disclosure approaches, 29 January 2024, [Read here](#).

#### **Accounting profession**

ACCA has become the first global professional accountancy body to have its net zero targets verified by the Science-Based Targets initiative, 9 February 2024, [Read here](#).

5 ways professional accountancy organisations support the technological transformation of auditing, Accountancy Europe, 28 February 2024, [Read here](#).

Sustainability in transactions – produced jointly by ACCA and CA ANZ – examines where sustainability meets corporate acquisition and divestment, 4 March 2024, [Read here](#).

#### **Other**

The IFRS Foundation Monitoring Board reaffirmed the importance of ongoing oversight of the standard-setting activities and governance of the IFRS Foundation, 04 Mar 2024, [View Release](#).

## **Appendix 1: List of organisations reviewed for updates**

### International Standard Setting Bodies

1. Monitoring Group
2. Public Interest Oversight Body (PIOB)
3. International Auditing and Assurance Standards Board (IAASB)
4. International Ethic Board for Accountants (IESBA)

### International Audit and Assurance Regulator Forums

5. International Forum of Independent Audit Regulators (IFIAR)
6. International Organisation of Securities Commissions (IOSCO)

### International Professional Bodies

7. International Federation of Accountants (IFAC)
8. Association of Chartered Certified Accountants (ACCA)

### Developments in local jurisdictions

#### *Australia*

9. Auditing and Assurance Standards Board (AUASB)
10. Accounting Professional & Ethical Standards Board (APESB)
11. CPA Australia

#### *Europe*

12. Accountancy Europe

#### *United Kingdom*

13. Financial Reporting Council (FRC)
14. Institute of Chartered Accountants in England and Wales (ICAEW)

#### *United States*

15. Securities and Exchange Commission (SEC)
16. Public Company Accounting Oversight Board (PCAOB)
17. American Institute of Certified Public Accountants (AICPA) & Chartered Institute of Management Accountants (CIMA)
18. Center for Audit Quality (CAQ)

#### *Canada*

19. Canadian Public Accountability Board (CPAB)
20. Canadian Auditing and Assurance Standards Board (AASB)
21. Chartered Professional Accountants Canada (CPA Canada)

### Insights from practitioners and other publications

22. Insights from practitioners
23. Other articles

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	9.2
<b>Meeting date:</b>	3 April 2024
<b>Subject:</b>	Environmental scan - domestic
<b>Date:</b>	19 March 2024
<b>Prepared By:</b>	Anna Herlender

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Action Required

For Information Purposes Only

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### Agenda Item Objectives

1. This update summarises the significant developments relevant to auditing and assurance from New Zealand organisations published since 31 January 2024. This agenda item is for information purposes.

### Background

2. Publications from the following organisations were reviewed:
  - The Financial Markets Authority (FMA)
  - The Chartered Accountants Australia and New Zealand (CA ANZ)
  - The Institute of Directors (IoD)
  - Other publications, including audit firms' insights and reports.

### Hot Topics

3. We have not identified any hot topics for this period.:

### Other publications

4. Below are other publications, not directly linked to the Board work plan, providing wider perspectives or news.

[Climate-related financial impacts](#), CA ANZ, 2 Feb 2024.

“This study investigates how the impacts of climate risk are being reflected in financial statements:

- Companies are increasingly recognising the financial impacts of climate-related risks
- Impairment of non-current assets is the biggest financial impact of climate-related risks
- Climate-sensitive sectors are more likely to disclose the financial impacts of climate-related risks.”

[Going Further to support trust and accountability](#), CA ANZ, 7 Feb 2024.

“Following engagement with members, our board and council, and careful analysis of the issues over the past year, Going Further – A roadmap to enhanced trust and accountability articulates 14 actions – some of which CA ANZ can implement, and others that require support from government and stakeholders.

- Roadmap with 14 actions to enhance trust and accountability in the profession and beyond
- A Chartered Accountant's Commitment for members to reaffirm annually
- Increased compulsory ethics CPD for members per triennium to 6 hours”.

Note: this is environmental scan prepared for the XRB/NZASB purposes. Attached to NZAuASB paper for information purposes.

## Memorandum

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Date: 12 March 2024  
To: Members of the NZ Accounting Standards Board  
From: Judith Pinny  
Subject: Environmental Update

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### Recommendation<sup>1</sup>

1. We recommend that the Board NOTES the International and Domestic update for the period 8 February 2024 to 5 March 2024.

### Purpose and impact

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

#### International

- (a) IFRS Foundation releases summary of research into [materiality judgements](#) which includes NZ research.
- (b) ASAF discusses [Power purchase agreements](#).

#### Trans-Tasman

- (c) CA ANZ release study on reporting [Climate-related risks](#) in NZ and an article on reporting [social impact](#).

#### Domestic

- (d) The McGuinness Institute is consulting on whether the NZ government needs to account for a Paris Agreement commitment to [purchase offshore carbon credits](#).
- (e) The Forsyth Barr [ESG insights report](#) notes an increased interest in international supply chains and the take up of reporting Nature Disclosures in NZ.
- (f) Greg Hurrell reports on [sustainable and green bonds](#) now accounting for 30%

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

of the NZX debt market.

## International

### IFAC: Global regulatory report

4. The January 2024 report: [IFAC Global Regulatory Report January 2024](#)

### IFRS Foundation: Erkki Liikanen reappointed as Chair

5. Erkki Liikanen has been reappointed as Chair of the IFRS Foundation for a third term, from 1 January 2025 through to 30 September 2027. His initial appointment was from October 2018. His reappointment was approved by the IFRS Foundation Monitoring Board.

### IFRS Foundation: Summary of research on Materiality Judgements

6. The IFRS Foundation has released a summary of the reports on preparers' materiality judgements by 6 standard setters including the XRB and AASB. The New Zealand research was undertaken by the Massey University team (team) which included Nives Botica-Redmayne. The team's research involved 14 interviews and analysing revenue disclosures under IFRS 15 *Revenue from Contracts with Customers* from 40 NZX listed entities and is reported on page 7-8 of the link below.
7. The team's conclusion was:

Because the IASB's practice statements are not reporting standards, most preparers do not perceive Practice Statement 2<sup>2</sup> as equal in importance or standing to mandatory IFRS Standards. To increase its prominence, standard-setters should communicate more about this document and why it is important and make it more easily accessible.

[summaries-of-nss-reports-on-materiality.pdf \(ifrs.org\)](#)

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### IFRS Foundation: ASAF<sup>3</sup> - Power Purchase Agreements

8. ASAF members contributed their views on the potential amendments to IFRS 9 *Financial Instruments* to address the accounting challenges for physical and virtual power purchase agreements (PPAs) with regard to the application of:
  - (a) the own-use requirements to physical PPAs; and

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<sup>2</sup> IFRS Practice Statement 2 *Making Materiality Judgements*.

<sup>3</sup> Accounting Standards Advisory Forum.

- (b) the hedge accounting requirements to both physical and virtual PPAs.

[ASAF January 2024 meeting-summary .pdf \(ifrs.org\)](#)

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IFRS Foundation: Introduction to IFRS 18

9. Short video providing an overview of the new IFRS 18 *Presentation and Disclosure in the Financial Statements* standard due to be released in April 2024. It has an effective date of 1 January 2027, with early application allowed.

[IFRS Webcast: Overview of the forthcoming IFRS Accounting Standard—IFRS 18](#)

ISSB: Inaugural Jurisdictional Guide for the Adoption and other use of ISSB standards

10. The ISSB has released a preview version of a guide that is intended to support jurisdictions on their journey to adopt the ISSB standards. At the same time, the ISSB has published a summary of ongoing and completed jurisdictional consultations.
11. The ISSB is expected to release the final guide in the first half of 2024.

[Guide for the adoption or other use of ISSB standards \(iasplus.com\)](#)

VBA and IFVI publish Conceptual Framework for Impact Accounting

12. The Value Balancing Alliance (VBA), together with the International Foundation for Valuing Impacts (IFVI), has published 'General Methodology 1: Conceptual Framework for Impact Accounting'.
13. The document sets out the objectives of impact accounting, defines key terms and concepts, and clarifies how impact accounting is connected to topics such as materiality assessments.

[IFVI VBA General Methodology 1 A4.pdf \(value-balancing.com\)](#)

Australian Financial Sector: Adoption of ISSB Standards

14. Three members of the Australian financial sector have advised the Australian Government not to deviate from the global baseline of the ISSB standards when requiring climate-related financial disclosures.
15. This follows the exposure draft legislation released by the Australian Government which replaced all mentions of “sustainability” in IFRS S1<sup>4</sup> with “climate”. In addition,

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<sup>4</sup> IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

IFRS S2<sup>5</sup> will only require preparers to consider the applicability of disclosures to their financed emissions.

[Australian financial sector warns of deviation from the ISSB baseline \(iasplus.com\)](https://iasplus.com)

## Trans-Tasman

### CA ANZ: Study on Climate-related risks in the financial statements

16. A joint study by CA ANZ, and the Universities of Queensland and Melbourne indicates the number of New Zealand companies with climate risk disclosures nearly doubled in the past year from 22 per cent and was expected to continue to increase.
17. Amir Ghandar (Chartered Accountants leader) said climate-related risk reporting in financial statements was least prevalent in the information technology and communication services sectors. "Interestingly, none of the 10 largest global tech companies mentioned climate -related risks in their financial statements", he said.
18. "These results demonstrate the impacts of climate risk as a financial issue, and investors have increasingly been calling for greater transparency and consistency." Ghandar said.

[Big jump in New Zealand companies disclosing climate-related risks - report | RNZ News](#)

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### CA ANZ: Acuity article on Charities reporting social impact

19. Acuity reports favourably on the XRB's PBE FRS 48 *Service Performance Reporting Standard*. We have noted some technical inaccuracies in the article as it refers to "Impacts", we're looking into this further.
20. Professor Matthew Hall from Monash University commented that:

*"We previously went through a process with the AASB but it did not result in new standards. Now it's back on the agenda and they are seeking to base it on the New Zealand standards. There are no proposals yet. The AASB is waiting to see how things go in New Zealand."*

[In the spreadsheets, or on the streets? | Acuity \(acuitymag.com\)](#)

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<sup>5</sup> IFRS S2 *Climate-related Disclosures*.

## Domestic

### McGuinness Institute: Should the NZ Government report a commitment to purchase offshore carbon credits?

21. This discussion paper looks at the commitment by the NZ Government under the Paris Agreement to purchase offshore carbon credits and discusses whether this commitment creates a reporting requirement for the NZ Government. It then makes recommendations for International standard-setters, and domestic organisations, including the XRB (pp 63-64). Comments are due by 23 March 2024.

[Discussion paper - reporting carbon credits \(mcguinnessinstitute.org\)](https://mcguinnessinstitute.org)

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### Minter Ellison: Proposed repeal of Business Payment Practices Act 2023

22. The Government has announced that it will repeal the Business Payment Practices Act 2023 (Act). The Act established a disclosure regime requiring certain large businesses to report on how long they take to pay invoices. The Act is being repealed before many of the provisions come into force in late May 2024, ten months after it received royal assent in July 2023.
23. The Government will work with BusinessNZ to create an industry-led voluntary code to ensure small businesses are paid on a timelier basis. Additionally, government agencies will be required to adopt faster payment times, including for e-Invoices.

[Government to repeal Business Payment Practices Act 2023 \(minterellison.co.nz\)](https://minterellison.co.nz)

### Business Desk: Review of Forsyth Barrs's ESG Insights Report

24. Forsyth Barr's latest ESG Insights report found that NZ's new mandatory climate reporting regime was the key, but not only, driver of the sustainability trend. NZ corporate and investor interest in ESG has stayed relatively stable.
25. In 2024, NZ could expect to see more commitments from international customers such as Nestlé and UK supermarket chain Tesco seeking an authentically green supply chain. Companies would face pressure from investors to go beyond just measuring their greenhouse gas emissions to actually reducing them. Last November, Fonterra announced a target of 30% reductions in on-farm emissions by 2030, an initiative its big customers, such as Nestlé, pushed. The Swiss dairy giant has said it would pay more for milk to support the transition to a low-carbon economy. Tesco is the biggest buyer of NZ products in the UK and wants all its products to be environmentally accredited.

26. As of October 2023, Air NZ, Genesis Energy and Meridian Energy were the only companies included in Forsyth Barr's research that had indicated a commitment to reporting against the international Taskforce on Nature-related Financial Disclosures (TNFD) framework, which was released last year.
27. But that was tempered by a level of reporting fatigue among corporates as they struggled to meet climate reporting standards. "The TNFD is a very complex framework to work through, but its importance cannot be underestimated." As a result, the analysts expected companies to integrate nature-related reporting into their climate transition plans.

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Business Desk: Supreme Court allows climate case to proceed against 7 Corporates

28. The case by Mike Smith, an activist and climate change spokesperson for the Iwi Chairs Forum against seven corporates seeking remedy for public nuisance, negligence and breach of duty of care through climate change.
29. Smith claims that in 2020-21 the seven companies were together responsible for more than a third of NZ's total reported greenhouse gas emissions.
30. One aspect of Smith's claim is that tikanga Māori should direct his case. He argues that breaching tikanga created a hara or take (issue or cause) requiring utu (compensatory action) to restore ea (a state of harmony or balance). That stance went with the proposition that tikanga should guide NZ common law more generally. The judges wrote that Smith's ultimate prospects at trial would depend, in part, on the quality of the evidence, including that in relation to tikanga Māori.

Business Desk: Greg Hurrell - Green bonds now a big slice of NZX Debt market

31. NZX says that nearly one-third of all debt on the NZX debt market is in green or sustainable bonds, an increase of 40% in two years, from 21% in 2021 to nearly 30% in 2023.
32. There are three categories of sustainable and green bonds on the NZDX: green bonds, sustainable bonds and sustainable financing bonds.
33. Green and ESG bonds were usually certified by one of the big four accounting firms, such as EY and KPMG, said Sarah Minhinnick, General Manager of NZX capital markets origination.

34. Those certifiers typically worked off one of two global systems with very specific criteria when assessing the bonds. One was the Climate Bonds Standard, developed by the Climate Bonds Initiative, and the other was the Green Bonds Principle (GBP) standard, she said.

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FMA: Chairman

35. Mark Todd, the current Chairman of the FMA, will have his term expire in May 2024. There has been no indication of his replacement yet.

Inland Revenue: Consultation on Business income exemption for Charities

36. Inland Revenue has been consulting on the proposed taxation of business income from registered charities which undertake business activities such as operating a café. What constitutes business income is a question of fact, and the Commissioner of Inland Revenue is clarifying his position on this.
37. Secondly, business income for charitable purposes is only exempt to the extent that the charitable purposes are carried out in NZ. A donation to an overseas disaster fund would compromise an exemption.
38. The registered charity is expected to determine an approach to splitting its business income, and use this consistently in future years.
39. Allocation of deductible expenses to the taxable business income is also a consideration.

[Business income exemption fact sheet \(ird.govt.nz\)](#)

[Charities – Business income exemption \(ird.govt.nz\)](#)

Increasing momentum for Modern Slavery legislation

40. Since Modern Slavery legislation was first floated in 2020, progress from the Labour government has been slow with only a cabinet paper being produced in July 2023. It proposed that organisations with over \$20 million in annual revenue would have to publicly report what they were doing to address risks of exploitation in their supply chains.
41. However, the Labour government had dropped the due diligence requirement that imposed a duty on entities to take effective action to identify and assess risks, and then track performance in addressing them.

42. Jorge Waayman at Harbour Asset Management who was part of the Joint fund managers' letter to the new Government, said not introducing due diligence requirements meant New Zealand was missing a chance to be seen as world-leading, as it had been on the mandatory emissions reporting requirements, but he was "optimistic" they would be implemented.

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