

Board Meeting Agenda

6 June 2018

9.15 am to 5.00pm

Manners Street, Wellington

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
9.15 am	1	<u>Welcome and Introduction</u>			
9.20 am	2	<u>Board Management</u>			
10.15am	Morning tea				
B: PUBLIC SESSION					
10.30 am	3	<u>Compelling reason changes in PES 1</u>			
	3.1	Board meeting summary paper	Note	Paper	
	3.2	Issues paper	Consider	Paper	
	3.2.1	Breaches compelling reason test	Note	Paper	
	3.2.2	Breaches comparison	Note	Paper	
	3.2.3	NOCLAR compelling reason test	Note	Paper	
	3.2.4	NOCLAR comparison	Note	Paper	
	3.2.5	PIE & other provisions compelling reason test	Note	Paper	
	3.2.6	PIE & other provisions analysis	Note	Paper	
11:45	4	<u>Strategic Action Plan Progress for year 2018</u>			
	4.1	Board meeting summary paper	Note	Paper	
	4.2	Actual progress against 2017/18 SAP	Note	Paper	
12:15 pm	Lunch				
1.00 pm	5	<u>The Audit of Service Performance Information</u>			
	5.1	Board meeting summary paper	Note	Paper	
	5.2	Issues paper	Consider	Paper	
	5.3	Amended Standard (Mark up from April)	Consider	Paper	
	5.4	Amended Standard (Clean)	Note	Paper	
	5.5	Analysis of all feedback received	Note	Paper	
3:00 pm	Afternoon tea				
3:15 pm	6	<u>Audit committee guidance</u>			
	6.1	Board meeting summary paper	Note	Paper	
	6.2	Issues paper	Consider	Paper	
	6.3	Audit Committees – A Guide to Good Practice (confidential Copyright)	Note	-	-
	6.4	PwC Audit Committee Guide [link]	Note	-	-

Est. Time	Item	Topic	Objective		Page
3:45 pm	7	<u>IESBA roundtables</u>			
	7.1	Board meeting summary paper	Note	Paper	
	7.2	Professional scepticism Roundtable Briefing Note	Consider	Supp Paper	
	7.3	NAS Roundtable Briefing Note	Consider	paper	
4:20 pm	8	<u>IESBA strategy and work plan</u>			
	8.1	Board meeting summary paper	Note	Paper	
	8.2	Draft submission to IESBA	Consider	Paper	
	8.3	IESBA Consultation Paper <i>Proposed Strategy and Work Plan, 2019-2023</i>	Note	Paper	
4:40 pm	9	<u>Environmental Scanning</u>			
	9.1	International monitoring update	Note	Paper	
	9.2	Domestic monitoring update	Note	Paper	
	9.3	Academic research update	Note	Paper	
C: NON-PUBLIC SESSION					
4.50 pm	10	<u>Closing items</u>			
	10.1	Issues to be reported to the XRB Board and NZASB			

Next meeting: 25 July 2018, Wellington

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	3.1
Meeting date:	6 June 2018
Subject:	Compelling Reason Amendments – extant PES 1 (Revised)
Date:	21 May 2018
Prepared by:	Sharon Walker

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Agenda Item Objectives

1. The objective for this agenda item is:
 - a) For the Board to AGREE the compelling reason amendments to be made to the draft [proposed] restructured Professional and Ethical Standard (PES) 1, *International Code of Ethics for Assurance Practitioners*, in respect of the provisions relating to other assurance engagements.

Background

2. At its September 2017 meeting the Board considered a marked draft of the close off text of Phase 1 of the IESBA's revised and restructured Code of Ethics. The marked text included changes necessary to reflect New Zealand terminology and New Zealand compelling reason amendments included in extant [PES 1 \(Revised\)](#). The Board requested staff to consider the existing compelling reasons for amendments to extant PES 1 (Revised) and to challenge whether those compelling reasons changes continue to be appropriate.
3. At the October 2017 meeting, the Board confirmed the compelling reason amendments to extant PES 1 (Revised) in respect of audit and review engagements are appropriate. Questions were raised as to the continuing appropriateness of existing compelling reason amendments relating to other assurance engagements.
4. Extant PES 1 (Revised) is intended to apply to all those who perform assurance engagements, even if they are not part of the accountancy profession¹. The provisions of extant PES 1 (Revised) pertaining to other assurance engagements apply equally to assurance of financial and non-financial information. Concerns were raised that in

¹ PES 1 (Revised), paragraph NZ1.2

extending the provisions for audit and review engagements to other assurance engagements, the Board may have inadvertently placed more onerous requirements on a practitioner in New Zealand than necessary to meet the intent of the international Code.

5. A subcommittee was established to consider whether the compelling reason test continues to be met in respect of the existing compelling reason amendments as they relate to other assurance engagements. Subcommittee members are: Clyde D'Souza, Ian Marshall, Marje Russ and Rowena Sinclair. As well as providing feedback on draft Board papers, the Subcommittee has met four times: 27 November 2017, 6 December 2017, 1 March 2018, and 2 May 2018.
6. The Board considered the Subcommittee's recommendations at its February 2018 meeting. The Board agreed to further deliberate the Subcommittee's recommendations and requested the following items to be included in the agenda materials for the April 2018 meeting:
 - a) The comparison of extant requirements with the IESBA provisions for those areas where the Subcommittee recommends reverting to the IESBA wording; and
 - b) The Subcommittee's compelling reason test analysis.
7. In developing its recommendations, the Subcommittee considered the existing compelling reason amendments with reference to the mandate of the NZAuASB:
8. Section 12(b) of the Financial Reporting Act 2013

The [XRB] Board has the following functions:

(b) to prepare, and if it thinks fit, issue auditing and assurance standards for –

- (i) the purposes of the Auditor Regulation Act 2011 or any other enactment that requires a person to comply with those standards; or
- (ii) the purposes of any rules or codes of ethics of an association of accountants where those rules or codes require the association's members to comply with those standards; or
- (iii) any other purpose approved by the Minister by notice in writing to the Board.

9. The Terms of Reference for the NZAuASB dated 24 August 2011, state:

The NZAuASB is responsible for the development, approval and promulgation of auditing and assurance standards and professional and ethical standards for auditors undertaking statutory assurance engagements.

The NZAuASB's specific responsibilities are:

- Develop or adopt, expose, finalise and promulgate:
 - Auditing and assurance standards for use in assurance engagements required by statute;
 - Professional and ethical standards to be applied by auditors undertaking statutory assurance engagements;
 - Other assurance standards within the scope of any “additional assurance standards” approval provided by the Responsible Minister in accordance with the Financial Reporting Act 1993.

10. The issues paper at agenda item 3.2 considers each of the compelling reason changes in greater depth. **The Subcommittee continues to hold the view that, in respect of many of the existing Other Assurance amendments to PES 1 (Revised), the compelling reason test has not been met.**

International Activities

11. In April 2018, the IESBA announced the finalization of a completely rewritten [Code of Ethics for Professional Accountants](#) (the “International Code”). Beyond its new structure, the International Code brings together key initiatives of the IESBA over the past four years and is clearer about how accountants should deal with ethics and independence issues.
12. While the fundamental principles of ethics have not changed, major revisions have been made to the ethics’ conceptual framework – the approach that underpins compliance with the fundamental principles and independence. Major changes to the International Code include:
 - a) Revised safeguards provisions better aligned to threats to compliance with the fundamental principles;
 - b) Stronger independence provisions regarding long association of personnel with audit clients;
 - c) New and revised sections dedicated to professional accountants in business;
 - d) Clear guidance that relevant provisions for professional accountants in business are also applicable to those in public practice;
 - e) New guidance to emphasize the importance of understanding facts and circumstances when exercising professional judgement;
 - f) New guidance to explain how compliance with the fundamental principles supports the exercise of professional scepticism in an audit or other assurance engagement.

Key enhancements to the international Code arising from the Safeguards project

13. The [Basis for Conclusions: Provisions Pertaining to Safeguards in the Code](#) describes the enhancements to the conceptual framework. The enhanced conceptual framework includes more explicit requirements relating to the threats and safeguards approach, as well as enhanced application material to explain how to identify, evaluate and address threats to compliance with the fundamental principles.
14. The [Basis for Conclusions](#) explains that the revisions will require a change in mindset in how professional accountants and firms apply the conceptual framework. In particular, they will require more careful thinking as to how an identified threat should best be addressed, and in particular whether an action will be effective in addressing the threat and therefore meet the revised definition of a safeguard.
15. The enhanced conceptual framework now explicitly addresses independence and links independence to the fundamental principles, specifically the principles of objectivity and integrity.
16. A building block approach has been applied in restructuring the international Code. The enhanced conceptual framework set out in Part 1, Section 120, applies to all professional accountants and is not repeated in subsequent Parts or sections of the International Code. It is expected that the conceptual framework will be applied during the course of the engagement.
17. The provisions of Section 120 specify a logical and systematic approach to identify, evaluate and address threats irrespective of the facts and circumstances. The provisions in subsequent sections of the International Code build on the conceptual framework and provide general and context specific guidance.
18. To help emphasise the need for a careful thought process when applying the conceptual framework, the overarching requirements clarify that in all three stages of the conceptual framework, i.e., identifying, evaluating and addressing threats, professional accountants are required to:
 - a) Exercise professional judgement, based on an understanding of known facts and circumstance;
 - b) Use the reasonable and informed third-party test; and
 - c) Remain alert for new information and to changes in facts and circumstances.
19. The enhanced conceptual framework makes it explicit that applying safeguards is only one of three ways to address threats:
 - a) Eliminating the circumstances, including interests of relationships, that are creating the threat:
 - b) Applying safeguards, when available and capable of being applied; or

c) Declining or ending the specific professional activity.

20. Conditions, policies and procedures, are no longer categorised as safeguards. Rather, conditions, policies and procedures are factors that are relevant in evaluating the level of threats. If a threat is not at an acceptable level, the professional accountant is required to address the threat as indicated in paragraph 19.
21. Safeguards are actions, individually or in combination, that the professional accountant applies to reduce threats to compliance with the fundamental principle to an acceptable level.
22. **The Subcommittee has taken into account the enhancements to the [International Code](#) in its consideration of the compelling reason changes. It has also considered the relationship of the auditing and assurance standards and the quality control standards with the International Code, noting that it is the interaction of the standards that makes them effective.**

Matters for Consideration

23. The NZAuASB is asked to AGREE the compelling reason amendments to be made to the draft [proposed] restructured PES 1 in respect of the provisions relating to other assurance engagements.

Material Presented

Agenda item 3.1	Board Meeting Summary Paper
Agenda item 3.2	Issues Paper
Agenda item 3.2.1	Breaches compelling reason test [from April Board papers, item 4.1.1]
Agenda item 3.2.2	Breaches comparison [from April Board papers, item 4.1.2]
Agenda item 3.2.3	NOCLAR compelling reason test [from April Board papers, item 4.1.3]
Agenda item 3.2.4	NOCLAR comparison [from April Board papers, item 4.1.4]
Agenda item 3.2.5	PIE & other provisions compelling reason test [from April Board papers, item 4.1.5]
Agenda item 3.2.6	PIE & other provisions analysis [from April Board papers, item 4.1.6]

Agenda Item 3.2: Issues Paper – extant compelling reason changes PES 1 (Revised)

1. As is normal in the process of adopting international standards into the New Zealand suite of auditing and assurance standards, the Subcommittee has started with the presumption that the [International Code](#) will be adopted without making any substantive changes. The Subcommittee has then applied the compelling reason test to the extant compelling reason amendments (related to other assurance engagements) to determine whether any changes should be made to the International Code for application in New Zealand.
2. The Subcommittee's recommendations to the Board are based on whether or not, in the Subcommittee's view, the compelling reason test has been met. Where the Board disagrees with the Subcommittee view, it will be necessary to articulate how, in the Board's view, the compelling reason test has/has not been met.
3. Compelling reasons for modification of an international standard may arise when:
 - The international standard does not reflect, or is not consistent with:
 - the New Zealand regulatory arrangements: or
 - principles and practices that are considered appropriate in New Zealand (including the use of significant terminology)

Where the international standard does not reflect, or is not consistent with New Zealand regulatory arrangements, the following criteria have to be met before the standard is modified:

- the standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in New Zealand, and
- the modification to the standard does not result in a standard that conflicts with, or results in lesser requirements than the international standard.

Where the international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in New Zealand, the following criteria have to be met before the standard is modified:

- the standard can be modified so as to result in a standard:
 - the application of which results in compliance with principles and practices considered appropriate by the NZAuASB;
 - that is clear and promotes consistent application by all practitioners in New

Zealand;

- that promotes significant improvement in audit quality (as described by the International Auditing and Assurance Standards Board's Framework for Audit Quality) in the New Zealand environment; and
 - the relative benefits of modifying the standard outweigh the costs (with costs primarily being compliance costs and the cost of differing from international standards, and benefit primarily relating to audit quality); and
 - the modification to the standard does not result in a standard that:
 - conflicts with or results in lesser requirements than the international standard;
 - is overly complex and confusing; or
 - inadvertently changes the meaning or intent of the international standard wording or places more onerous requirements on practitioners in New Zealand than necessary.
4. The Subcommittee has considered the compelling reason test in the context of the mandate of the NZAuASB, which is to issue auditing and assurance standards, including professional and ethical standards, for auditors undertaking statutory assurance engagements. The Subcommittee also considered the need to ensure that the standards are fit for purpose and can be applied to the evolving nature of the subject matters on which assurance is sought.
 5. The Subcommittee also took into consideration, new information that the Board has obtained through recent research with respect to the types of assurance engagements being undertaken. It also considered the engagement standards, ethical standards and quality control standards, and the way in which these standards are always used together, i.e., in addition to complying with the ethical standards, the assurance practitioner must also comply with the quality control standards, through the firm's system of quality control, and the relevant engagement standards, e.g., ISAs (NZ); ISAEs (NZ); ISRE (NZ).
 6. Other assurance engagements are performed in accordance with ISAE (NZ) 3000 (Revised)¹ and its related subject matter specific standards, where applicable.
 7. ISAE (NZ) 3000 (Revised) is premised on the basis that:
 - The members of the engagement team and the engagement quality control reviewer are subject to Professional and Ethical Standard (PES) 1 (Revised)² or other

¹ ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits and Reviews of Historical Financial Information*

² [PES 1 \(Revised\)](#), *Code of Ethics for Assurance Practitioners*

professional requirements, or requirements in law or regulation, that are at least as demanding; and

- The assurance practitioner who is performing the engagement is a member of a firm that is subject to Professional and Ethical Standard 3 (Amended)³ or other professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality control, that are at least as demanding as PES 3 (Amended).
8. The objective of the Subcommittee was to apply the compelling reason test, as described in paragraph 3, to the extant compelling reason changes with respect to other assurance engagements and make recommendations to the Board.
9. The Subcommittee considered the following existing compelling reason changes:
- Breaches of the independence requirements for other assurance engagements (paragraph 9)
 - Noncompliance with laws and regulations (paragraph 22)
 - PIE requirements included in extant section 290⁴, extended to section 291⁵ (including long association) (paragraph 58)
 - Temporary staff assignments (other assurance engagements) (paragraph 98)
 - Multiple threats to independence (audit and review engagements and other assurance engagements) (paragraph 106)

Breaches of the independence requirements for other assurance engagements

Existing amendment and reason therefor

10. Extant [PES 1 \(Revised\)](#) is amended to incorporate the same framework that applies to breaches of independence for audit and review engagements for other assurance engagements. At the time this amendment was approved by the Board, the Board was of the view that there is no reason why an abbreviated framework would apply to a breach of the independence requirements when performing other assurance engagements (under extant section 291) compared with an audit or review engagement (under section 290). Accordingly, the NZAuASB included the same framework as described in section 290 within section 291.

³ PES 3 (Amended), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*

⁴ Extant [PES 1 \(Revised\)](#), section 290, Independence – Audit and Review Engagements

⁵ Extant [PES 1 \(Revised\)](#), section 291, Independence – Other Assurance Engagements

Subcommittee consideration

11. In considering whether the compelling reason test has been met with respect to the existing amendment, the Subcommittee compared the extant requirements⁶ with the relevant paragraphs from the revised and restructured [International Code](#)⁷.
12. The Subcommittee found, when put side by side, the two frameworks result in substantially the same action taken by the assurance practitioner when a breach of the independence requirements is identified. The abbreviated framework for other assurance engagements is more principles based than the companion framework for audit and review engagements which is more prescriptive in terms of the communications to be made.
13. The following table indicates areas where differences in the framework have been identified.

Audit/Review Framework	Other Assurance Framework	Comment
<p>R400.80 When a firm identifies a breach:</p> <p>(a) End, suspend or eliminate the interest and address consequences of the breach</p> <p>(b) Consider legal or regulatory requirements</p> <p>(c) Communicate breach in accordance with firm policies and procedures</p> <p>(d) Evaluate significance and impact of breach</p> <p>(e) End engagement or take satisfactory action to address consequences of breach</p>	<p>R900.50 When a firm identifies a breach:</p> <p>(a) End, suspend or eliminate the interest</p> <p>(b) Evaluate significance and impact of breach</p> <p>(c) Take satisfactory action to address consequences of breach</p>	<p>PES 3 (Amended)⁸ requires firms to establish policies and procedures designed to provide it with reasonable assurance that (1) the firm and its personnel comply with relevant ethical requirements and (2) it is notified of breaches of independence requirements and to enable it to take appropriate actions to resolve such situations.</p> <p>The assurance practitioner should always consider legal or regulatory requirements.</p>
<p>R400.81 If action cannot be taken to address the consequences of the breach,</p>	<p>R900.51 If action cannot be taken to address the consequences of the breach,</p>	<p>In an audit/review engagement, the engaging party is those charged with</p>

⁶ Extant [PES 1 \(Revised\)](#), 291.33-291.43

⁷ Paragraphs R400.80-R400.89 of part 4A for audit and review engagements and paragraphs R900.50-R900.55 of part 4B for other assurance engagements

⁸ Professional and Ethical Standard (PES) 3 (Amended), *Quality Control for Firms that Perform Audits and Review of Financial Statements, and Other Assurance Engagements*, paragraphs 20-25

inform those charged with governance and take steps necessary to end the engagement.	inform the party that engaged the firm or those charged with governance, <i>as appropriate</i> .	governance. In other assurance engagements, whether or not to communicate with TCWG is a matter of professional judgement, taking into consideration the subject matter of the engagement.
R400.82 If action can be taken to address the consequences of the breach, discuss with those charged with governance. (specifies matters to communicate)	R900.52 If action can be taken to address the consequences of the breach, discuss with the engaging party or those charged with governance, <i>as appropriate</i> .	
R400.86 If the breach occurred prior to the issuance of the previous audit report, comply with the provisions of Part 4A in evaluating the significance of the breach and the impact on the current period.	No equivalent	Recognises that assurance engagements are not always repetitive in nature. In the case of other assurance, the assurance practitioner/firm complies with Part 4B.

14. For a detailed comparative, please refer to the analysis presented at *agenda item 3.2.2*.

15. The Subcommittee view is of the view that the existing amendment to PES 1 (Revised):

- is more cosmetic rather than substantive in nature;
- adds unnecessary duplication in the Code; and
- inappropriately extends a framework applicable to engagements the subject matter of which is financial statements, to other engagements with varying subject matters.

The compelling reason test presented at *agenda item 3.2.1* identifies the specific considerations on which the Subcommittee is of the view that the compelling reason test has not been met.

16. We recognise that concerns have been expressed by some Board members that breaches of independence should always be communicated to those charged with governance⁹. The audit/review framework requires the assurance practitioner to communicate breaches of independence with those charged with governance. Under the other assurance framework, the assurance practitioner is required to communicate with the party that engaged the firm or those charged with governance, *as appropriate* [emphasis added]. The view expressed, is that it will always be appropriate, and therefore should be required, that the assurance practitioner communicate breaches of independence to those charged

⁹ ISA (NZ) 260 (Revised) defines those charged with governance, The person(s) or organisation(s) (e.g., corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.

with governance.

17. In an audit/review engagement, those charged with governance engage the firm. The assurance practitioner will always have a direct line to those charged with governance. Additionally, the subject matter in an audit or review engagement is historical financial statements for which those charged with governance have a direct responsibility.
18. In other assurance engagements, undertaken under ISAE (NZ) 3000 (Revised), the assurance practitioner agrees the terms of the engagement with the engaging party which may or may not be those charged with governance.
19. In the other assurance framework, the requirement to communicate with the engaging party or those charged with governance, *as appropriate*, recognises that, for example, the subject matter of the engagement may be of limited significance to those charged with governance. The assurance practitioner uses professional judgement in determining with whom to communicate. In applying professional judgement, the assurance practitioner will consider matters, such as, the nature and significance of the breach, the subject matter of the engagement, the position of the engaging party within the entity.
20. ISAE (NZ) 3000 (Revised) recognises that management and governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. Identifying the appropriate personnel or those charged with governance with whom to communicate will require the exercise of professional judgement to determine which person(s) have the appropriate responsibilities for, and knowledge of, the matters concerned.¹⁰
21. Consistent with the NZAuASB's harmonisation strategy with Australia, the Subcommittee also considered the wording of the Accounting Professional and Ethical Standards Board's (APESB) proposed standard APES 110, *Code of Ethics for Professional Accountants*, noting that no changes to the international Code have been proposed in this regard.
22. While recognizing the concerns expressed, the Subcommittee continues to hold the view that the compelling reason test has not been met and, therefore, recommends that the wording of the international Code is not changed.
23. Does the Board agree with the Subcommittee view that the compelling reason test has not been met in respect of the existing change to the framework for addressing breaches of independence for other assurance engagements? If not, with which aspects of the compelling reason test do you disagree? Please be as specific as possible.

¹⁰ ISAE (NZ) 3000 (Revised), paragraph A20

Noncompliance with laws and regulations (NOCLAR)

24. The compelling reason amendments for NOCLAR are considered under the following sub-headings:

- Aligning requirements for review engagements with those for audit engagements
- Aligning requirements for other assurance engagements with those for audit engagements
- Documentation

i. Aligning requirements for review engagements with those for audit engagements (modification 1, agenda item 3.2.3)

Existing amendment and reason therefor

25. Section 225¹¹ of extant [PES 1 \(Revised\)](#) was amended to expand the requirements for audit engagements to apply also to review engagements.
26. The reason given by the IESBA for not aligning the requirements for audit and review engagements was that the provision of a review engagement varies significantly around the world and that audits tend to be more significantly legislated or regulated than other assurance engagements¹².
27. The New Zealand legislative environment allows for some entities to have the financial statements reviewed rather than audited. In the case of a review, the public will have the same level of reliance on the assurance practitioner as would be on the auditor. The review would be regulated in the same manner as if that entity had elected to have an audit.
28. Section 291¹³ equates the independence requirements for an audit and a review. It seems inconsistent therefore to draw a distinction between audit and review in section 225 where no such distinction is made in section 291 (from a clarity perspective the International Code uses the term audit to mean audit and review in section 291, and therefore this inconsistency could result in confusion and misapplication in practice.)
29. The Subcommittee supports the extant compelling reason amendment, agreeing that the compelling reason test has been met:
- Some medium sized charities can elect for a review or an audit of the financial statements. Aligning the requirements for an audit and review are consistent with this legislative requirement for some form of assurance over the financial

¹¹ Extant [PES 1 \(Revised\)](#), section 225, Responding to Non-compliance with Laws and Regulations

¹² [IESBA Exposure Draft, Responding to Non-compliance with Laws and Regulations](#), paragraph 82, May 2015

¹³ Section 291, *Independence – Other Assurance Engagements*, renamed Part 4B in the restructured international Code.

statements.

- The modification simplifies the standard, making the framework for audit and review engagements consistent.
- Inconsistency of the NOCLAR provisions with the independence requirements is removed.
- Additional requirements are not expected to be onerous for a review engagement as the appropriate authorities for audit/review engagements would be similar.

30. Does the Board agree with the Subcommittee that the compelling reason test has been met in respect of aligning the NOCLAR provisions for review engagements with those for audit engagements? If not, with which aspects of the compelling reason test do you disagree? Please be as specific as possible.

ii. Aligning requirements for other assurance engagements with those for audit engagements
(modifications 2a, 2b and 2c, agenda item 3.2.3)

Existing amendment and reason therefor

31. Section 225 of extant [PES 1 \(Revised\)](#) is amended to apply to all other assurance engagements. Expanding the provisions to review engagements is considered separately as discussed in the preceding paragraphs. This section addresses only the changes made that relate to other assurance and the reasons therefor.
32. Specific paragraphs that apply only to auditors performing audits of financial statements are amended to apply to all assurance engagements. Specific paragraphs applying to non-audit services are then deleted. In most instances, the modifications result in streamlining the provisions and reducing repetition. There are, however, some paragraphs that are specific to non-audit services and will remain so. These provisions relate to the communication of non-audit services within the firm and to network firms.
33. The reason given for these changes is that the Board has previously extended the independence requirements applicable to other assurance engagements to equate to the requirements of an audit. The Board considered that there is no reason for the independence requirements for an audit to differ from other assurance engagements. Similarly, there is no reason why the assurance practitioner should react differently if the engagement is an audit or some other assurance engagement where the assurance practitioner suspects or identifies NOCLAR.

Subcommittee consideration

34. In considering whether the compelling reason test has been met in respect of the extant compelling reason changes to align the provisions for non-audit services to the provisions

for audit engagements when addressing NOCLAR the Subcommittee compared the extant requirements¹⁴ with the relevant paragraphs from the revised and restructured [International Code](#)¹⁵.

35. The following table indicates areas where differences in the framework have been identified.

Audit/Review Framework	Other Assurance Framework	Comment
<i>Obtaining an understanding (modification 2a)</i>		
R360.10 shall obtain an understanding of the matter	R360.29 shall seek to obtain an understanding of the matter	If the assurance practitioner is unable to obtain an understanding, regardless of engagement type, the assurance practitioner needs to consider the implications for the engagement and the report,.
R360.11 discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.	R360.30 discuss the matter with the appropriate level of management. If the assurance practitioner has access to those charged with governance, discuss the matter with them where appropriate.	Recognizes that, depending on the subject matter, the assurance practitioner may not have access to those charged with governance. This is more likely to be the case when the subject matter is further removed from financial statements.
R360.12 If management involved, discuss with those charged with governance	R360.30 discuss the matter with the appropriate level of management. If the assurance practitioner has access to those charged with governance, discuss the matter with them where appropriate.	The assurance practitioner applies judgement in determining with whom to communicate.
<i>Addressing the matter (modification 2b)</i>		
R360.13 Advise them to take appropriate and timely actions		These requirements were identified by the

¹⁴ Extant [PES 1 \(Revised\)](#), section 225

¹⁵ Section 360 of the restructured International Code.

R360.14 Consider whether management and those charged with governance understand their regulatory and legal responsibilities.		Subcommittee as “nice to have”. These are the matters that would be discussed with management/those charged with governance under R360.11 or R360.30
R360.15 comply with (a) laws and regulations; and (b) auditing and review standards		
Communication with respect to groups, R360.16, R360.17, R360.18		Communication requirements specific to audits of group financial statements; these are not applicable to other assurance engagements
	Communication to the entity’s external auditor R360.31, R360.32, R360.33	Communications to the entity’s external auditor are specific to other assurance engagements only.
<i>Further action needed (modification 2c)</i>		
R360.19 assess the appropriateness of the response and R360.20 determine if further action is needed in the public interest	R360.36 consider if further action is needed in the public interest.	Requirement to consider whether further action is needed addresses the need to assess the appropriateness of the response.
R360.21 exercise professional judgement taking into account reasonable and informed third party		Assurance practitioner always required to exercise professional judgement. The reasonable and informed third party test is part of the conceptual framework.
Predecessor/successor accountant communications, R360.22, R360.23	R320.6, R320.8	Section 360 is repetitive of Section 320 dealing with predecessor/successor communications.

36. For a detailed comparative, please refer to the analysis presented at *agenda item 3.2.4*.

37. The Subcommittee view is that the existing amendment to PES 1 (Revised):

- is more cosmetic rather than substantive in nature;

- rather than improving clarity by combining all requirements and guidance, may create a level of confusion as not all requirements are applicable to all engagement types (specifically R360.16-R360.18¹⁶ which apply only to group audits and R360.31-R360.33¹⁷ which apply only to non-audit services).
- inappropriately extends a framework applicable to engagements the subject matter of which is financial statements, to other engagements with varying subject matters.

The compelling reason tests presented at *agenda item 3.2.3* identify the specific considerations on which the Subcommittee is of the view that the compelling reason tests have not been met.

38. The Subcommittee has challenged the premise, previously expressed by the Board, that the same framework as audit and review engagements is equally appropriate for other assurance engagements. In particular, the Subcommittee notes that the principles and practices considered appropriate for financial statement assurance engagements may not be the most appropriate principles and practices for assurance over other subject matters. The principles based approach for other assurance services permits a more flexible approach to addressing NOCLAR.
39. The Subcommittee agrees that consistency in the framework for audit and review engagements is beneficial to the assurance practitioner, promoting consistent application of the standard across differing engagement types. We note however, that clarity may not be provided for other types of assurance engagement due to differing reporting structures.
40. Assurance practitioners performing other assurance engagements often do not have the same level of responsibility to respond to identified or suspected non-compliance as do auditors; however, they are not precluded from considering the guidance applicable to audits (and reviews, as proposed). The Subcommittee is of the view that adding detailed requirements from the audit/review framework is unlikely to lead to a significant improvement in the quality of other assurance engagements. The subject matter of other assurance engagements is diverse. Assurance practitioners may not have the same level of access to information, management and those charged with governance as an auditor does. This may particularly be the case when the assurance practitioner has not been engaged by those charged with governance or where the engagement being performed is not of a recurring nature.
41. Concern has been expressed by some Board members that the assurance practitioner should always be required to communicate identified or suspected NOCLAR to those charged with governance. For an audit engagement (and, as proposed, review engagement), the [International Code](#) requires identified or suspected non-compliance

¹⁶ Extant paragraphs NZ225.21.1-NZ225.22.1 dealing with communication with respect to group audits

¹⁷ Extant paragraphs NZ225.17.1- NZ225.17.5 apply only to non-audit services

that has occurred or might occur to be discussed with the appropriate level of management and, where appropriate those charged with governance¹⁸. This is also the extant requirement in PES 1 (Revised). The assurance practitioner uses professional judgement in determining when to communicate with those charged with governance.

42. By comparison, for non-audit services, the [international Code](#) requires identified or suspected non-compliance that has occurred or might occur to be discussed with the appropriate level of management. The matter is also required to be discussed with those charged with governance where appropriate, *if the assurance practitioner has access to them*¹⁹ [emphasis added]. This requires the assurance practitioner to use professional judgement in determining with whom to communicate.
43. The view of some members of the Board is that the assurance practitioner should always have access to those charged with governance.
44. Recent events in the Australian banking industry highlight the need for the assurance practitioner, whether performing an audit, review, or other assurance, to have access to and an open dialogue with those charged with governance.
45. The Subcommittee view is that the existing amendment to align the requirements for other assurance with audit engagements is more cosmetic rather than substantive in nature. This is acknowledged in the NZAuASB's [Explanation for Decisions \(Explanation for Decisions\) made by the NZAuASB in Finalising Amendments to Professional and Ethical Standard 1 \(Revised\) Responding to Non-Compliance with Laws and Regulations](#) which notes, "the IESBA has developed similar, but separate responsibilities for professional accountants performing audits of financial statements as opposed to responsibilities when performing services other than audits of financial statements²⁰"; "the frameworks are similar in many respects, i.e., the IESBA framework for professional accountants providing non-audit services repeats a number of requirements that apply to auditors."²¹
46. The Subcommittee is of the view that changes that are substantially cosmetic in nature do not meet the compelling reason test. Accordingly, the Subcommittee recommends that the draft restructured PES 1 separately address noncompliance with laws and regulations for audit (and as proposed, review) engagements and other assurance engagements.
47. Consistent with the NZAuASB's harmonisation strategy with Australia, the Subcommittee also considered the wording of APESB's proposed standard APES 110 noting that no changes to the international Code have been proposed in this regard.

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| 48. Does the Board agree with the Subcommittee that the compelling reason test has been met in respect of aligning the NOCLAR provisions for review engagements with those for |
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¹⁸ Paragraph R360.11

¹⁹ Paragraph R360.30

²⁰ Paragraph 7 of the Explanation for Decisions

²¹ Paragraph 10 of the Explanation for Decisions

audit engagements? If not, with which aspects of the compelling reason test do you disagree? Please be as specific as possible.

iii. Documentation of identified or suspected NOCLAR (*modification 2d, agenda item 3.2.3*)

Existing amendment and reason therefor

49. The International Code requires certain matters to be documented for audit engagements. Under the International Code, documentation for other assurance engagements is *encouraged*. Section 225 of [PES 1 \(Revised\)](#) has been amended to specify certain matters to be documented for other assurance engagements consistent with other assurance standards. This modification has the effect of requiring rather than encouraging documentation of NOCLAR in all assurance engagements, which is required by the other assurance standards in any event.

Subcommittee consideration

50. The [IESBA Basis for Conclusions, Responding to Non-Compliance with Laws and Regulations](#), notes that the IESBA has taken a proportionate approach to documentation. The encouragement for the assurance practitioner to document recognizes that practitioners performing other assurance engagements are not subject to the same extent of regulatory oversight as auditors.²²
51. The following table indicates areas where differences in the framework have been identified.

Audit/Review Framework	Other Assurance Framework	Comment
<i>Documentation (modification 2d)</i>		
R360.28 shall document: <ul style="list-style-type: none"> • Response of management and those charged with governance to the matter • Courses of action considered, judgements made, decisions taken • Fulfilment of 	360.40 A1 encourage to document: <ul style="list-style-type: none"> • The matter • Results of discussions with management and those charged with governance and their response • Courses of action considered, judgements made, 	Proportionate approach to documentation by IESBA recognises that the practitioner performing other assurance engagements are not subject to the same extent of regulatory oversight as auditors. ²³ For other assurance engagements, ISAE (NZ) 3000 (Revised) and subject matter specific standards, as

²² Paragraph 133

²³ [IESBA Basis for Conclusions, Responding to Non-Compliance with Laws and Regulations](#), paragraph 133

responsibility R360.20	decisions taken <ul style="list-style-type: none"> Fulfilment of responsibility R360.36 	applicable, establish the documentation requirements. (refer paragraph 54)
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52. For a detailed comparative, please refer to the analysis presented at *agenda item 3.2.4*.
53. The compelling reason test presented at *agenda item 3.2.3* identifies the specific considerations on which the Subcommittee is of the view that the compelling reason test has not been met.
54. As noted in the reason for the amendment, paragraph 49, the modification has the effect of requiring rather than encouraging documentation of NOCLAR in all assurance engagements, which is required by the other assurance standards in any event. For other assurance engagements ISAE (NZ) 3000 (Revised), subject matter specific ISAEs (NZ) and SAEs will specify the documentation requirements. ISAE (NZ) 3000 (Revised) requires the assurance practitioner to prepare, on a timely basis, documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement to understand,... (c) the significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.²⁴
55. The Subcommittee is of the view that the modification does not significantly improve audit quality as the matters the assurance practitioner is encouraged to document are those matters that would ordinarily be required to be documented in accordance with the assurance standards.
56. Consistent with the NZAuASB's harmonisation strategy with Australia, the Subcommittee also considered the wording of the APESB's proposed standard APES 110 noting that no changes to the international Code have been proposed in this regard.

57. Does the Board agree with the Subcommittee that the compelling reason test has not been met in respect of aligning the NOCLAR provisions for other assurance engagements with those for audit engagements? If not, with which aspects of the compelling reason test do you disagree? Please be as specific as possible.

PIE Requirements, including Long Association

Existing amendment and reason therefor

58. Extant [PES 1 \(Revised\)](#) extends some of the more restrictive public interest entity requirements included in section 290 to section 291. These include prohibitions on:

²⁴ Paragraph 79 of ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

valuation services, certain IT systems services, certain recruiting services, as well as provisions pertaining to relative fees and long association.

59. The view of the Board, at the time, was that threats to independence do not differ whether the subject matter of the engagement is financial statements or another subject matter. Accordingly, the prohibitions are appropriate for other assurance clients, if they are public interest entities, and that prohibiting such services in these circumstances is appropriate to maintaining independence, given the high level of interest in a public interest entity.

Subcommittee consideration

60. Concurrent with the structure project, the IESBA has undertaken the safeguards project, the aim of which was to improve the clarity, appropriateness and effectiveness of safeguards in the International Code.
61. Enhancements to the conceptual framework include more explicit requirements to the threats and safeguards approach, as well as enhanced application material to explain how to identify, evaluate and address threats to compliance with the fundamental principles and threats to independence.
62. These revisions will require a change in mindset in how assurance practitioners and firms apply the conceptual framework. In particular, they will require more careful thinking as to how an identified threat should best be addressed, and whether an action will be effective in addressing the threat and therefore meet the revised description of a safeguard. The enhanced conceptual framework now explicitly addresses independence.
63. The conceptual framework sets out a logical and systematic approach for assurance practitioners to identify, evaluate and address the threats irrespective of the facts and circumstances.
64. To emphasise the need for a careful thought process when applying the enhanced conceptual framework, the overarching requirements in each section clarify that in all three stages of the conceptual framework, i.e., identifying, evaluating and addressing threats, the assurance practitioner is required to:
- Exercise professional judgement, based on an understanding of known facts and circumstances;
 - Remain alert for new information and changes in facts and circumstances; and
 - Use the reasonable and informed third-party test.
65. Enhancements specific to the provision of non-assurance services to assurance clients include:

- Explaining that examples are “actions that might be safeguards” to address the threat created by providing the specific type of non-assurance service. This change is intended to prompt firms and network firms to be mindful of other actions that might be more appropriate to address specific threats, depending on the facts and circumstances of each specific engagement.
 - Clarifying that seeking advice from another party no longer meets the revised description of a safeguard.
 - Increasing the prominence of the requirement that prohibits firms from assuming a management responsibility when providing a non-assurance service.
 - Adding new application material for evaluating and addressing threats in relation to non-assurance services, specifically new application with respect to materiality.
 - Including clear, explicit and prominent statements that in certain situations, the International Code prohibits firms and network firms from providing certain non-assurance services to an audit/review client because there can be no safeguards to address the threats to independence. These highlight that safeguards may not in all cases be sufficient to address an independence threat.
 - Clarifying that the threats from providing multiple non-assurance services to an assurance client are to be identified, evaluated in aggregate and addressed.
66. The IESBA recognises that, as a result of new business practices, the evolution of financial markets and changes in information technology amongst other developments, it is impossible for the International Code to include an all-inclusive list of non-assurance services that might be provided to a client. Accordingly, the enhanced conceptual framework emphasises the general provisions that are always applicable.
67. The Subcommittee recognises and has taken into account the enhancements to the conceptual framework when considering the modifications to extant PES 1 (Revised) in respect of the PIE requirements, including long association.
68. The following table provides a summary of the existing compelling reason changes considered by the Subcommittee. For the detailed analysis, refer to *agenda item 3.2.6*.

Audit/Review Framework
<i>Introductory paragraphs</i>
NZ291.3.1, NZ291.3.2, NZ291.27.1 ^α

^α These paragraphs are necessary only if the Board determines to make compelling reason changes to the International Code.

<i>Valuation services</i>
R605.3 prohibition on providing a valuation service to an audit or review client that is a public interest entity if the valuation would have a material effect on the financial statements being audited/reviewed.
<i>IT system services</i>
<p>R606.5 prohibition on providing IT systems services to an audit/review client that is a public interest entity if the services involve designing or implementing IT systems that:</p> <ul style="list-style-type: none"> (a) Form a significant part of the internal control over financial reporting (b) Generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion.
<i>Recruiting services</i>
<p>R609.7 prohibition on recruiting services to an audit or review client that relates to searching for or seeking out candidates or undertaking reference checks with respect to:</p> <ul style="list-style-type: none"> • A director or officer of the entity • A member of senior management in a position to exert influence over the preparation of the client's accounting records or the financial statements.
<i>Fees – Relative size</i>
<p>R410.4-R410.6</p> <p>R410.4 Where the audit or review client is a public interest entity and for two consecutive years total fees represent more than 15% of total fees of the firm:</p> <ul style="list-style-type: none"> (a) Disclose this fact to those charged with governance (b) Discuss whether the following action might be a safeguard and apply it: <ul style="list-style-type: none"> i. Perform a pre-issuance review by someone outside the firm; or ii. Perform a post-issuance review by someone outside the firm. <p>R410.5 If the post-issuance review would not reduce the threat to an acceptable level, a pre-issuance is required.</p> <p>R410.6 If the fees continue to exceed 15%:</p> <ul style="list-style-type: none"> (a) Disclose and discuss with those charged with governance (per R410.4); and (b) Comply with R410.4(b) and R410.5
<i>Long association</i>
NZ291.141.1 – NZ291.141.15 applying the long association provisions applicable to audit and review engagements to other assurance engagements.

NZ291.141.1 Assurance practitioner shall not act in any of the following roles, or a combination thereof, for a period of more than seven cumulative years:

- Engagement partner
- Individual responsible for EQCR
- Other key assurance partner role

Cooling off period:

NZ291.141.3 Engagement partner – 5 consecutive years

NZ291.141.4 Individual responsible for EQCR – 3 consecutive years

NZ291.141.5 Key assurance partner – 2 consecutive years

NZ291.141.6 Combination of roles, serving as engagement partner for four or more cumulative years – 5 consecutive years

NZ291.141.7 Combination of roles, services as individual responsible for EQCR for four or more cumulative years – 3 consecutive years

NZ291.141.8 Combination of engagement partner and individual responsible for EQCR for four or more cumulative years:

- 5 consecutive years where the individual has been the engagement partner for three of more years; or
- 3 consecutive years in the case of any other combination

NZ291.141.9 Any other combination of key assurance partner roles, 2 consecutive years

NZ291.141.10 Length of the relationship includes time on as a key assurance partner at a prior firm.

NZ291.141.12 Threats and safeguards approach applies even if the time served is less than seven years.

NZ291.141.13 Rare circumstances due to unforeseen circumstances where, with the concurrence of those charged with governance, permitted to serve an additional year as long as the threat to independence can be eliminated or reduced to an acceptable level.

NZ291.141.14 When the assurance client becomes a public interest entity, length of service before the client becomes a public interest entity is taken into account.

NZ291.141.15 Regulator may specify exemptions from rotation requirements.

69. The Subcommittee is of the view that the existing amendments to PES 1 (Revised) do not meeting the compelling reason test:

- Do not promote significant improvement in assurance quality.
- Place more onerous requirements on a practitioner in New Zealand than necessary

to meet the intent of the international Code

70. The compelling reason test presented at *agenda item 3.2.5, modification 1*, identifies the specific considerations on which the Subcommittee is of the view that the compelling reason test has not been met.
71. The view of the Subcommittee is that threats to independence in other assurance engagements do vary and depend on a number of factors, including: the subject matter; the purpose of the assurance engagement; the needs of the users. Establishing rules-based prohibitions based on principles and practices considered appropriate for a financial statement audit/review is not consistent with a principles based Code.
72. Requirements in the International Code for other assurance engagements are intentionally not as specific because of the wide range of possible subject matters and subject matter information.
73. Nevertheless, the assurance practitioner is required to be independent, in mind and appearance, and is required to apply the same conceptual framework to identify, evaluate and address threats to independence.
74. The provision of non-assurance services, a significant level of fees from an individual client or long association with a client create threats to independence. This is the case regardless of whether the client is a public interest entity or not.

Valuation services, IT systems services, Recruiting services

75. Before providing a non-assurance service to an assurance client, the firm is required to determine whether providing such a service might create a threat to independence²⁵. The International Code recognises that new business practices, the evolution of financial markets and changes in information technology are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client.
76. Additionally, the firm is prohibited from assuming a management responsibility related to the subject matter or subject matter information of an assurance engagement provided by the firm²⁶. Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and tangible resources.

Fees – relative size

77. In the case of fees, when the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client

²⁵ Paragraph R950.3 of the [International Code](#)

²⁶ Paragraph R950.6 of the [international Code](#)

create a self-interest or intimidation threat.

78. For an audit/review engagement that is a public interest entity, when fees from one client and its related entities exceed 15% of total fees received by the firm for two consecutive years, the assurance practitioner is required to disclose this to those charged with governance and apply one of the two specified safeguards, either: a pre-issuance review or a post-issuance review by an assurance practitioner who is not a member of the firm expressing a conclusion. There is an assumption that using an external assurance practitioner will reduce the threat to an acceptable level.
79. The International Code does not establish such a requirement in respect of other assurance engagements for public interest entities. For an other assurance engagement, the assurance practitioner applies the conceptual framework²⁷ to identify, evaluate and address the threat, either by eliminating the threat, applying safeguards to reduce it to an acceptable level or resigning from or declining the engagement. Factors that are relevant in evaluating the threat include: the operating structure of the firm, whether the firm is well established or new; the significance of the client qualitatively and/or quantitatively to the firm.
80. Where the firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A apply to the firm, a network firm and the audit or review team members, i.e., the firm would be subject to the 15% threshold.
81. Where the firm performs only an assurance engagement for the client, the assurance practitioner applies the conceptual framework²⁸.
82. The Subcommittee is of the view that such a requirement in the other assurance framework is unlikely to lead to a significant improvement in audit quality, as the conceptual framework applies. Additionally, in the initial assessment of this provision by the Board, it was noted that in practical terms this provision was likely to have little impact as clients are likely to be audit clients of the firm and, therefore, subject to the provisions of Part 4A²⁹.

Long association

83. In line with its previous view that the threats to independence do not differ whether the subject matter of the engagement is financial statements or another subject matter, in finalising the recent revised long association provisions, the Board determined that the long association provisions for audit and review engagements should also be applicable to other assurance engagements of public interest entities.
84. At the time of approving these amendments, the Board did not reconsider whether the compelling reasons test is met. Rather, it deferred consideration of the compelling reason

²⁷Paragraph R120.5 of the International Code.

²⁸Section 120 of the International Code, specifically paragraph R120.5

²⁹As indicated in the February 2012 Board papers, agenda item 4.1b

test to the Subcommittee.

85. The [explanation for decisions](#) made notes that while stakeholders agreed that conceptually the independence requirements should be the same for all assurance engagements, some respondents questioned whether the compelling reason test is still met, given the impact of the long association changes. The majority of respondents were opposed to applying those changes across the board.³⁰
86. The more prescriptive independence requirements applicable to public interest entities were introduced by the IESBA in response to the loss in credibility of financial statements due to several high profile corporate/audit failures related to audits of public entities.
87. The familiarity or self-interest threat that is created by long service with an assurance client is the same regardless of the engagement type, i.e., audit, review or other assurance engagement, and whether the entity is a public interest entity or otherwise. The assurance practitioner is required to apply the conceptual framework to identify, evaluate and address threats to independence, both in mind and appearance. In applying the conceptual framework, the assurance practitioner is required to:
- Exercise professional judgement;
 - Remain alert for new information and to changes in facts and circumstances; and
 - Use the reasonable and informed third party test.
88. The reasonable and informed third party test is a consideration by the assurance practitioner about whether the same conclusion would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the assurance practitioner knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the assurance practitioner's conclusions in an impartial manner.
89. The Subcommittee considers that threats to independence due to long service may be stronger when the subject matter is the same from year to year, such as the case in an annual audit or review engagement. This may not always be the case with other assurance engagements as the subject matter can change and the engagement may be infrequent, for example, every three years.
90. The Subcommittee also notes that where an assurance client is also an audit/review client, the provisions of Part 4A, and therefore the public interest entity provisions, will apply.
91. The International Code relies on the proper application of the conceptual framework, i.e.,

³⁰ Paragraph 32 of the [explanation of decisions made](#).

the identification, evaluation and addressing of threats by the assurance practitioner.

Board member concerns

92. Concerns have been expressed by some members that it is important for the public interest entity provisions applicable to audit and review engagements to be included in the provisions for other assurance engagements as the auditor of a public interest entity may rely on an assurance report of another practitioner, for example, a report on the controls at a service organisation.
93. In this regard, the Subcommittee notes that there are specific procedures the auditor is required to perform in order to use on the work of others. For example, in relation to the service auditor's report, the auditor is required to be satisfied as to the service auditor's professional competence and independence. This may involve making inquiries about the service auditor to the service auditor's professional organisation or other practitioners and inquiring whether the service auditor is subject to regulatory oversight.³¹
94. The Subcommittee puts significant weight on the integrated nature of the standards, i.e., the combined effect of auditing and assurance standards with the Code of Ethics and the quality control standards, along with the enhancements made to the International Code through the Safeguards project. It is the interaction of the standards that makes them most effective. The Code is not intended to be read and applied in isolation.
95. While recognizing the concerns expressed, the Subcommittee continues hold the view that the compelling reason test has not been met.
96. Consistent with the NZAuASB's harmonisation strategy with Australia, the Subcommittee also considered the wording of the APESB's proposed standard APES 110 noting that no changes to the international Code have been proposed in this regard.

97. Does the Board agree with the Subcommittee that the compelling reason test has not been met in respect of applying certain of the PIE requirements for audit and review engagements to other assurance engagements? If not, with which aspects of the compelling reason analysis do you disagree? Please be as specific as possible.

Temporary Staff Assignments

Existing amendment and reason therefor

98. Extant [PES 1 \(Revised\)](#) Section 291 includes guidance from Section 290 relating to temporary staff assignments. Lending staff may create a self-review threat if that staff member is later involved in providing assurance over that subject matter or that subject matter information. This guidance is not intended to be a prohibition and does not apply

³¹ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*, paragraphs 13 and A21

where the role is not related to the subject matter of the assurance engagement.

99. This guidance which is expanded guidance on the threats and safeguards approach, is as relevant to other assurance engagements as it is to audits and reviews and therefore the addition promotes audit quality³².
100. This guidance indicates that lending of staff by a firm to an assurance client may create a self-review threat. Assistance may be given but the firm's personnel shall not be involved in:
- Providing non-assurance services that would be prohibited; or
 - Assuming management responsibilities.

Threats are to be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

Subcommittee view

101. The Subcommittee agrees that it is necessary for the assurance practitioner to consider the threat to the fundamental principles and independence arising from temporary staff assignments. However, the Subcommittee view in respect of this extant amendment is that the compelling reason test has not been met. The Subcommittee is of the view that, under the conceptual framework, there is unlikely to be any significant difference in the identification, evaluation or addressing of the threat. Accordingly, the addition of this guidance is likely to have little impact on assurance quality.
102. The [International Code](#), prohibits a firm from assuming a management responsibility related to the subject matter or subject matter information of an assurance engagement provided by the firm³³. The assurance practitioner is required to apply the conceptual framework to identify, evaluate and address threats to the fundamental principles³⁴. When applying the conceptual framework, the assurance practitioner: exercises professional judgement; remains alert for new information and changes in facts and circumstances; and uses the reasonable and informed third party test³⁵.
103. The compelling reason test presented at *agenda item 3.2.5, modification 2* identifies the specific considerations on which the Subcommittee is of the view that the compelling reason test has not been met.
104. Consistent with the NZAuASB's harmonisation strategy with Australia, the Subcommittee also considered the wording of the APESB's proposed standard APES 110 noting that no

³² Paragraph 40 of the [explanation for decisions made by the NZAuASB in finalizing PES 1](#).

³³ [International Code](#), R950.6

³⁴ [International Code](#), R120.3

³⁵ [International Code](#), R120.5

changes to the international Code have been proposed in this regard.

105. Does the Board agree with the Subcommittee that the compelling reason test has not been met? If not, with which aspects of the compelling reason analysis do you disagree? Please be as specific as possible.

Multiple Threats to Independence

Existing amendment and reason therefor

106. Extant [PES 1 \(Revised\)](#) includes guidance that clarifies the need for the assurance practitioner to evaluate multiple threats to independence, which individually may not be significant, in the aggregate. This guidance is included in both extant sections 290 and 291. This change is made in line with the NZAuASB's harmonisation policy with the Australian Code.

Subcommittee recommendation

107. The discussion on the conceptual framework at the start of extant section 290 has been relocated in the restructured [International Code](#) to section 120 on the overall conceptual framework elements. The restructured [International Code](#) includes a reference to multiple threats³⁶ but it is not as detailed as the extant NZ paragraph and is in a different section to the Independence Standards.
108. In line with the NZAuASB's harmonisation policy with Australia, it is proposed that the following wording be included in Parts 4A and 4B of the proposed restructured PES 1³⁷,

Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

109. This paragraph is based on a similar addition to the APESB's proposed standard APES 110.
110. The Subcommittee view is that the compelling reason test has been met in respect of this proposed modification. Refer to *agenda item 3.2.5, modification 3*.

111. Does the Board agree with the Subcommittee that the compelling reason test has been met? If not, with which aspects of the compelling reason analysis do you disagree? Please be as specific as possible.

³⁶ Paragraph 120.8 A1 of the [International Code](#) states, "The consideration of qualitative as well as quantitative factors is relevant in the assurance practitioner's evaluation of threats, as is the combined effect of multiple threats, if applicable."

³⁷ Based on the wording in extant [PES 1 \(Revised\)](#), paragraphs NZ290.11.1 and NZ291.10.1

*Compelling Reason Test: Breaches**Modification: Breaches of the independence requirements for other assurance engagements*

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>Amend the provisions in Part 4B of the International Independence Standards, <i>Independence for Assurance Engagements Other Than Audit and Review Engagements</i>, so that the same framework that applies to Part 4A, <i>Independence for Audit and Review Engagements</i>, also applies to Part 4B when there has been a breach of the independence provisions.</p> <p>Paragraphs affected R900.50-R900.55</p>	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	The International Code includes an abbreviated version of the provisions for addressing a breach of the independence requirements in Part 4B (previously section 291). The NZAuASB was of the view that there is no reason why an abbreviated framework would apply to a breach of the independence requirements when performing other assurance engagements (under section 291) compared to an audit or review engagement (under section 290, now part 4A). The consequences of a breach of independence are as significant regardless of the subject matter of the engagement. The NZAuASB has therefore included the same framework as described in Section 290 within Section 291.
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ.	n/a
The modification does not result in a standard that conflicts with, or results in	n/a

lesser requirements than the international standard.	
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
1. The application of the modification will result in compliance with principles and practices considered appropriate by the NZAuASB	As identified by the analysis comparing the International Code (refer attachment 2) other assurance provisions (section 900) with the audit and review provisions (section 400), the two frameworks result in substantially the same action taken by the assurance practitioner when a breach of the independence requirements is identified. The abbreviated framework in section 900 is more principles based. In the other assurance arena, the Subcommittee is of the view that we do not have sufficient context to say what practices will be appropriate. Rather, the more principles based approach in the other assurance framework permits a more flexible approach to addressing the breach.
2. The modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	The modification would result in consistency between audit and review and other financial assurance engagements. It may not provide such clarity for other types of assurance engagement due to differing reporting structures.
3. The modification will promote significant improvement in audit quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	There is no evidence to support a significant improvement in audit quality. The comparison of the two frameworks indicates that the assurance practitioner would perform substantially the same procedures.
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit analysis has been performed.
5. The modification does not conflict with or result in lesser requirements than the international standard.	The modification would not conflict with or result in lesser requirements than the International Code.

<p>6. The proposed modification overall does not result in the standard being overly complex and confusing.</p>	<p>The modification may cause confusion among assurance practitioner trying to fit the response to a breach into the financial assurance model.</p>
<p>7. The proposed modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international.</p>	<p>The modification places more onerous requirements on a practitioner in NZ than necessary to meet the intent of the International Code. As indicated by the comparison of the frameworks, the Subcommittee is of the view that the two frameworks result in substantially the same action taken by the assurance practitioner when a breach of the independence requirements is identified.</p>
<p>Conclusion</p>	<p>Based the above, the Subcommittee is of the view that the compelling reason test has not been met.</p>

Breaches of the independence requirements

This table compares the provisions of extant PES 1 (Revised) section 291 with the restructured International Code section 400 (audit and review) and section 900 (other assurance). Yellow highlight is used to identify differences between the International frameworks, section 400 and section 900. Extant PES 1 (Revised) is included for information.

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
	Breach of an Independence Provision for Audit and Review Engagements	Breach of an Independence Provision for Assurance Engagements Other Than Audit and Review Engagements	
<i>Breach of a Provision of this Section</i>	<i>When a Firm Identifies a Breach</i>	<i>When a Firm Identifies a Breach</i>	
<p>NZ291.34 When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.</p> <p>NZ291.37 Depending upon the significance of the breach, it may be necessary to terminate the assurance engagement or it may be possible to take action that satisfactorily addresses the consequences of the breach. The firm shall determine whether such action can be taken and is appropriate in the circumstances. In making this determination the firm shall exercise professional judgement</p>	<p>R400.80 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:</p> <p>(a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;</p> <p>(b) Consider whether any legal or regulatory requirements apply to the breach and, if so:</p> <p>(i) Comply with those requirements; and</p> <p>(ii) Consider reporting the breach to a professional or regulatory body or oversight authority if</p>	<p>R900.50 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:</p> <p>(a) End, suspend or eliminate the interest or relationship that created the breach;</p> <p>(b) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report; and</p> <p>(c) Determine whether action can be taken that satisfactorily addresses the consequences of the breach.</p> <p>In making this determination, the firm shall exercise professional judgment</p>	<p>Consideration of whether legal or regulatory requirements apply to the breach is necessary regardless of whether or not the Code specifies consideration.</p> <p>Paragraphs 20-25 of PES 3 (Amended) address compliance with relevant ethical requirements including independence and the communication of breaches. ISAE (NZ) 3000 (Revised) requires the firm to apply PES 3 (Amended) or other professional requirements that are at least as demanding.</p> <p>The Subcommittee is of the view that the detailed requirements applicable</p>

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<p>and take into account whether a reasonable and informed third party, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the assurance practitioner at that time, would be likely to conclude that the firm's objectivity would be compromised and therefore the firm is unable to issue an assurance report.</p>	<p>such reporting is common practice or expected in the relevant jurisdiction;</p> <p>(c) Promptly communicate the breach in accordance with its policies and procedures to:</p> <ul style="list-style-type: none"> (i) The engagement partner; (ii) Those with responsibility for the policies and procedures relating to independence; (iii) Other relevant personnel in the firm and, where appropriate, the network; and (iv) Those subject to the independence requirements in Part 4A who need to take appropriate action; <p>(d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report; and</p> <p>(e) Depending on the significance of the breach, determine:</p> <ul style="list-style-type: none"> (i) Whether to end the audit engagement; or 	<p>and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an assurance report.</p>	<p>to audit and review engagements (highlighted) are addressed by the requirements of PES 3 (Amended) and the need to follow applicable law or regulation.</p>

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
	<p>(ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.</p> <p>In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit report.</p>		
<p>NZ291.33 A breach of a provision of this section may occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. A consequence of such a breach may be that termination of the assurance engagement is necessary.</p>	<p>400.80 A1 A breach of a provision of this Part might occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. It might be necessary to end the audit engagement because of the breach.</p>		<p>Guidance supporting the requirement in paragraph R400.80. Not essential material. Considered “nice to have”.</p>
<p>NZ291.36 When a breach is identified, the firm shall in accordance with its policies and procedures, promptly</p>	<p>400.80 A2 The significance and impact of a breach on the firm’s</p>		<p>Guidance supporting the requirement in paragraph R400.80. Not essential material. Considered “nice to have”.</p>

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<p>communicate the breach to the engagement partner, those with responsibility for policies and procedures relating to independence, other relevant personnel in the firm, and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action. The firm shall evaluate the significance of that breach and its impact on the firm's objectivity and ability to issue an assurance report. The significance of the breach will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature and duration of the breach; • The number and nature of any previous breaches with respect to the current assurance engagement; • Whether a member of the assurance team had knowledge of the interest or relationship that caused the breach; • Whether the individual who caused the breach is a member of the assurance team or another 	<p>objectivity and ability to issue an audit report will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature and duration of the breach. • The number and nature of any previous breaches with respect to the current audit engagement. • Whether an audit team member had knowledge of the interest or relationship that created the breach. • Whether the individual who created the breach is an audit team member or another individual for whom there are independence requirements. • If the breach relates to an audit team member, the role of that individual. • If the breach was created by providing a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements on which the firm will express an opinion. 		

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<p>individual for whom there are independence requirements;</p> <ul style="list-style-type: none"> • If the breach relates to a member of the assurance team, the role of that individual; • If the breach was caused by the provision of a professional service, the impact of that service, if any, on the subject matter or subject matter information on which the firm will express an opinion; and • The extent of the self-interest, advocacy, intimidation or other threats created by the breach. 	<ul style="list-style-type: none"> • The extent of the self-interest, advocacy, intimidation or other threats created by the breach. 		
<p>NZ291.38 Examples of actions that the firm might consider include:</p> <ul style="list-style-type: none"> • Removing the relevant individual from the assurance team; • Conducting an additional review of the affected assurance work or re-performing that work to the extent necessary, in either case using different personnel; • Recommending that the assurance client engage another firm to review or re-perform the affected 	<p>400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:</p> <ul style="list-style-type: none"> • Removing the relevant individual from the audit team. • Using different individuals to conduct an additional review of the affected audit work or to re-perform that work to the extent necessary. 		<p>Guidance supporting the requirement in paragraph R400.80. Not essential material. Considered “nice to have”.</p>

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<p>assurance work to the extent necessary; and</p> <ul style="list-style-type: none"> Where the breach relates to a non-assurance service that affects the subject matter or subject matter information, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service. 	<ul style="list-style-type: none"> Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary. If the breach relates to a non-assurance service that affects the accounting records or an amount recorded in the financial statements, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service. 		
<p>NZ291.39 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall inform those charged with governance as soon as possible and take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement. Where</p>	<p>R400.81 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the audit engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws</p>	<p>R900.51 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate. The firm shall also take the steps necessary to end the assurance engagement in compliance with any applicable legal</p>	<p>Communication in other assurance engagement is with the party that engaged the firm or those charged with governance. In an audit/review, those charged with governance engage the firm.</p> <p>This communication requirement recognizes that in an other assurance engagement, the assurance practitioner may not have access to TCWG or the matter may be deemed</p>

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<p>termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.</p>	<p>or regulations, the firm shall comply with any reporting or disclosure requirements.</p>	<p>or regulatory requirements relevant to ending the assurance engagement.</p>	<p>to be of less importance to TCWG. The assurance practitioner uses professional judgement to determine the appropriate party with whom to communicate.</p> <p>R400.81 makes an allowance for situations where the firm is not permitted by law or regulation to end the audit. When this is the case, law or regulation will determine the reporting or disclosure requirements.</p>
<p>NZ291.40 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with those charged with governance. The firm shall discuss the breach and the action as soon as possible, unless those charged with governance have specified an alternative timing for less significant breaches. The matters to be discussed shall include:</p> <ul style="list-style-type: none"> The significance of the breach, including its nature and duration; 	<p>R400.82 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:</p> <ol style="list-style-type: none"> The significance of the breach, including its nature and duration; How the breach occurred and how it was identified; The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue an audit report; The conclusion that, in the firm's 	<p>R900.52 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.</p>	<p>Requirement is substantially the same, albeit R400.82 is significantly more granular.</p>

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<ul style="list-style-type: none"> How the breach occurred and how it was identified; The action taken or proposed to be taken and the firm's rationale for why the action will satisfactorily address the consequences of the breach and enable it to issue an assurance report; The conclusion that, in the firm's professional judgement, objectivity has not been compromised and the rationale for that conclusion; and Any steps that the firm has taken or proposes to take to reduce or avoid the risk of further breaches occurring. 	<p>professional judgment, objectivity has not been compromised and the rationale for that conclusion; and</p> <p>(e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.</p> <p>Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.</p>		
	<i>Communication of Breaches to Those Charged with Governance</i>		
	400.83 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.	R300.9 When communicating with those charged with governance in accordance with the Code, an assurance practitioner shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the	R300.9 and R300.10 apply to all assurance practitioners and therefore are applicable to other assurance engagements. The application material referencing R300.9 and R300.10 is not considered essential to include for other assurance engagements.

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
		<p>assurance practitioner communicates with a subgroup of those charged with governance, the assurance practitioner shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.</p> <p>R300.10 If an assurance practitioner communicates with individuals who have management responsibilities as well as governance responsibilities, the assurance practitioner shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the assurance practitioner would otherwise communicate.</p>	
<p>NZ291.41 The firm shall communicate in writing with those charged with governance all matters discussed in accordance with paragraph NZ291.40 and obtain the concurrence of those charged with governance that action can be, or has been taken to</p>	<p>R400.84 With respect to breaches, the firm shall communicate in writing to those charged with governance:</p> <p>(a) All matters discussed in accordance with paragraph R400.82 and obtain the concurrence of those charged with</p>		<p>ISAE (NZ) 3000 (Revised) requires the assurance practitioner to consider whether... any matter has come to the attention of the assurance practitioner that is to be communicated [to various parties including those charged with governance].¹ There is no specific</p>

¹ ISAE (NZ) 3000 (Revised), paragraph 78

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
satisfactorily address the consequences of the breach. The communication shall include a description of the firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained and any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring. <i>If those charged with governance do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit or review engagement, where permitted by law or regulation, in compliance with any applicable legal or regulatory requirements relevant to terminating the audit or review engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.</i>	governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and (b) A description of: (i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and (ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.		requirement for this communication to be in writing. R900.54 requires those matters discussed with TCWG to be documented. The Subcommittee is of the view that the requirements of ISAE (NZ) 3000 (Revised) and section 900 (R900.51-R900.52) of the International Code, are consistent with the requirements of section 400.
NZ291.41 <i>If those charged with governance do not concur that the action satisfactorily addresses the consequences of the breach, the firm</i>	R400.85 If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph	R900.53 If the party that engaged the firm does not, or those charged with governance do not concur that the action proposed by the	Similar requirement

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<i>shall take the steps necessary to terminate the audit or review engagement, where permitted by law or regulation, in compliance with any applicable legal or regulatory requirements relevant to terminating the audit or review engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.</i>	R400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit engagement in accordance with paragraph R400.81.	firm in accordance with paragraph R900.50(c) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.	
	<i>Breaches Before the Previous Audit Report Was Issued</i>		
NZ291.42 If the breach occurred prior to the issuance of the previous assurance report, the firm shall comply with this section in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an assurance report in the current period. <i>The firm shall also consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued assurance reports, and the possibility of withdrawing such assurance reports,</i>	R400.86 If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with the provisions of Part 4A in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit report in the current period.		The requirement applicable to audit and review engagements is based on the annual nature of the engagement. Other assurance engagements are not always performed on an annual basis. In the case of other assurance engagements, if a breach occurs, paragraphs R900.50-R900.52 apply.

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<i>and discuss the matter with those charged with governance.</i>			
NZ291.42 <i>The firm shall also consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued assurance reports, and the possibility of withdrawing such assurance reports, and discuss the matter with those charged with governance.</i>	R400.87 The firm shall also: (a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, and the possibility of withdrawing such audit reports; and (b) Discuss the matter with those charged with governance.		The requirement applicable to audit and review engagements is based on the annual nature of the engagement. Other assurance engagements are not always performed on an annual basis. In the case of other assurance engagements, if a breach occurs, paragraphs R900.50-R900.52 apply.
	<i>Documentation</i>	<i>Documentation</i>	
NZ291.43 The firm shall document the breach, the action taken, key decisions made and all the matters discussed with those charged with governance and any discussions with a professional body, relevant regulator or oversight authority. <i>When the firm continues with the assurance engagement, the matters to be documented shall also include the conclusion that, in the firm's professional judgement, objectivity has not been compromised and the</i>	R400.88 In complying with the requirements in paragraphs R400.80 to R400.87, the firm shall document: (a) The breach; (b) The actions taken; (c) The key decisions made; (d) All the matters discussed with those charged with governance; and	R900.54 In complying with the requirements in paragraphs R900.50 to R900.53, the firm shall document: (a) The breach; (b) The actions taken; (c) The key decisions made; and (d) All the matters discussed with the party that engaged the firm or those charged with governance.	Hard to argue that discussions with a professional or regulatory body or oversight authority should not be documented in an other assurance engagement. Implied by R900.54 (a)-(c)?

EXTANT PES 1 (REVISED) (NZ) OTHER ASSURANCE (Section 291)	SECTION 400 International Code (PREVIOUSLY SECTION 290)	SECTION 900 International Code (PREVIOUSLY SECTION 291)	COMMENTS
<i>rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an assurance report.</i>	(e) Any discussions with a professional or regulatory body or oversight authority.		
NZ291.43 <i>When the firm continues with the assurance engagement, the matters to be documented shall also include the conclusion that, in the firm's professional judgement, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an assurance report.</i>	R400.89 If the firm continues with the audit engagement, it shall document: (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit report.	R900.55 If the firm continues with the assurance engagement, it shall document: (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an assurance report.	Same requirement

Compelling Reason Test: NOCLAR

Compelling reason tests are included in this paper for the following modifications:

#	Modification	Additional materials
1	Aligning of requirements for review engagement with those for audit engagements	N/A
2a	<i>Align requirements for other assurance engagements with those for audit engagements – Obtaining an Understanding of the Matter</i>	Refer attachment 4 (Extant PES 1 (Revised) paragraphs 225.12 – 225.17)
2b	<i>Align requirements for other assurance engagements with those for audit engagements – Addressing the Matter</i>	Refer attachment 4 (Extant PES 1 (Revised) paragraphs 225.18 – 225.20)
2c	<i>Align requirements for other assurance engagements with those for audit engagements – Further Action is Needed</i>	Refer attachment 4 (Extant PES 1 (Revised) paragraphs 225.23 – 225.30)
2d	<i>Align requirements for other assurance engagements with those for audit engagements – Documentation</i>	Refer attachment 4 (Extant PES 1 (Revised) paragraphs 225.37 – NZ225.38.1)

Modification 1: Align requirements for review engagements with those for audit engagements

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
Modification Section 360, paragraphs R360.10 – 360.28 A1 that apply only to auditors performing audits of financial statements are expanded to apply also to review engagements.	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	The reason given by IESBA for not aligning the requirements was that the provision of a review engagement varies significantly around the world and that audits tend to be more significantly legislated or regulated than other assurance engagements ¹ . We consider that due to the NZ legislative environment that allows for some entities to have the financial statements reviewed rather than audited, in the case of a review, the public will have the same level of public reliance on the reviewer as

¹ [IESBA Exposure Draft, Responding to Non-compliance with Laws and Regulations](#), paragraph 82, May 2015

	<p>would be on the auditor. The review would be regulated in the same manner as if that entity had elected to have an audit.</p> <p>We also note that Part 4A equates the independence requirements for an audit and a review. It seems inconsistent therefore to draw a distinction between audit and review in section 360 where no such distinction is made in Part 4A (from a clarity perspective the IESBA Code uses the term audit to mean audit and review in Part 4A, and therefore we consider that this inconsistency would result in confusion and misapplication in practice.)</p>
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ.	n/a
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
1. The application of the modification will result in compliance with principles and practices considered appropriate by the NZAuASB	<p>Some medium sized charities can elect for a review or an audit of the financial statements. We consider that aligning the requirements for an audit and review are consistent with this legislative requirement for some form of assurance over the financial statements.</p> <p>Where management or those charged with governance agree that non-compliance has or may occur, it is appropriate for the assurance practitioner in a review engagement to prompt them to take appropriate and timely action, after discussing the matter with them.</p>
2. The modification results in a standard that is clear and	<p>The modification simplifies the standard, making the framework consistent for audit and review</p>

<p>promotes consistent application by all practitioners.</p> <p><i>(For example, excluding options not relevant in NZ and Australia)</i></p>	<p>engagements. Part 4A equates the independence requirements for an audit and a review. From a clarity perspective the IESBA Code uses the term audit to mean audit and review in Part 4A, and therefore we consider that this inconsistency would result in confusion and misapplication in practice.</p>
<p>3. The modification will promote significant improvement in audit quality in New Zealand</p> <p><i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i></p>	<p>The modifications require the practitioner to prompt management to take appropriate actions rather than just discussing the matter with them. If management or those charged with governance take appropriate remedial action then that would be the desired outcome of applying the framework, and avoid the need for further action.</p>
<p>4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).</p>	<p>The benefits are expected to exceed the costs. The main differences between the audit and other assurance framework as proposed is that the following two steps only apply to an audit: a) If applicable, the auditor shall prompt management and those charged with governance to take appropriate action and b) The auditor shall comply with applicable laws and regulations, including requirements of reporting to an appropriate authority, and professional standards including the implications for the auditor's report. We consider that these are not onerous requirements for a review engagement as the appropriate authorities for audit/review engagements would be similar.</p>
<p>5. The modification does not conflict with or result in lesser requirements than the international standard.</p>	<p>IESBA notes (paragraph 81-83 of explanatory memorandum) that jurisdictions would not be precluded from extending the proposed framework to cover specific types of assurance engagement other than audits should they believe that doing so would be appropriate for their national contexts.</p>
<p>6. The modification overall does not result in the standard being overly complex and confusing.</p>	<p>The modification will simplify the framework as it would apply to audit and review engagements in the same way (see B2).</p>
<p>7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.</p>	<p>The IESBA permits modification by national standard setters.</p> <p>We consider that aligning the requirements for an audit and review are consistent with the legislative requirement for some form of assurance over the financial statements.</p>
<p>Conclusion</p>	<p>Compelling reason test met.</p>

Modification 2a-: Align requirements for other assurance engagements with those for audit engagements – Obtaining an Understanding of the Matter

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>We propose to expand section 360, paragraphs R360.10 – R360.12 that apply only to auditors performing audits of financial statements (and as per <i>modification 1</i> propose to amend to apply to review engagements) to apply also to all assurance engagements.</p> <p>Paragraphs R360.29 – 360.30 A2 would be deleted.</p> <p>The modification would require the assurance practitioner to:</p> <ol style="list-style-type: none"> obtain an understanding of information concerning non-compliance or suspected non-compliance (rather than <i>seek</i> to obtain); discuss the matter with management and, where appropriate, those charged with governance; and if the assurance practitioner believes that management is involved in the identified or suspected non-compliance, discuss the matter with those charged with governance. <p>Aligning the frameworks for audit/review (as proposed in modification 1) and other assurance would result in a simplification of the framework for assurance practitioners that perform both audit and review engagements and other assurance engagements.</p>	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	<p>The NZAuASB has previously extended the independence requirements for audit and review engagements to other assurance engagements. Similarly, the NZAuASB considers that there is no reason why the assurance practitioner should react differently if the engagement is an audit or some other assurance engagement where the assurance practitioner suspects or identifies NOCLAR. Accordingly, the frameworks for considering NOCLAR for audit and review and other assurance engagements have been combined by the Board.</p>
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>

The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ.	n/a
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB	<p>Based on a more informed understanding of the other assurance market, the Subcommittee is of the view that the NZAuASB's previously expressed view that the same framework as audit and review engagements is equally appropriate for other assurance may no longer be conclusive.</p> <p>The principles and practices considered appropriate for financial statement assurance may not be the most appropriate for other assurance over other subject matters.</p> <p>In the other assurance arena, the Subcommittee is of the view that we do not have sufficient context to say what practices will be appropriate. Rather, the more principles based approach in the other assurance framework permits a more flexible approach to addressing NOCLAR.</p>
2. The modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	<p>The modification results in consistency between audit and review and other financial assurance engagements. It may not provide such clarity for other types of assurance engagement due to differing reporting structures.</p>
3. The modification will promote significant improvement in audit quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	<p>The nature of other assurance engagements that assurance practitioners may perform is extremely diverse. These assurance practitioners may not have the same level of access to information, management and those charged with governance auditors. Additionally, the engagements may be one-off limited scope engagements and their duration relatively short.</p>

	<p>The requirement to <i>seek</i> to obtain an understanding and to communicate with those charged with governance, if the assurance practitioner has access to them, recognise and respond to this diversity. The difference in wording recognises the particular nature of the auditors' remit and the higher public expectations of them.</p> <p>In practice, the subcommittee is of the view that two frameworks achieve substantially the same result. Within the mandate of the NZAuASB, the assurance practitioner is likely to be able to obtain an understanding of the matter. The assurance practitioner in these circumstances is also likely to have access to those charged with governance and therefore, if appropriate, will be able to discuss the matter with those charged with governance.</p> <p>Where the assurance practitioner does not have access to those charged with governance, the other assurance framework establishes requirements to for the assurance practitioner to communicate/consider whether to communication with the firm/external auditor.</p> <p>Accordingly, the Subcommittee is of the view that the modification is unlikely to lead to significant increase in assurance quality. Rather, streamlining the requirements is identified as a nice to have rather than a compelling reason to change.</p>
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit analysis has been performed.
5. The modification does not conflict with or result in lesser requirements than the international standard.	IESBA notes (paragraph 81-83 of explanatory memorandum) that jurisdictions would not be precluded from extending the proposed framework to cover specific types of assurance engagement other than audits should they believe that doing so would be appropriate for their national contexts. The modifications are IESBA plus.
6. The modification overall does not result in the standard being overly complex and confusing.	The modifications simplify the framework for assurance practitioners who perform audit and review engagements as well as other assurance engagements as the framework would be the same for all engagement types. This is well suited to engagements over financial information.

	However, the Subcommittee notes that the framework may be overly prescriptive and rules based for other assurance engagements over non-financial information. For such engagements, the subcommittee prefers the principles based approach of the International Code.
7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.	The modification does place more onerous requirements on a practitioner in New Zealand than necessary to meet the intent of the International Code.
Conclusion	Based on the above, the Subcommittee is of the view that the compelling reason test has not been met.

Modification 2b: Align requirements for other assurance engagements with those for audit engagements – Addressing the Matter

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>We propose to expand section 360, paragraphs R360.13 – 360.15 A1 that apply only to auditors performing audits of financial statements (and as per <i>modification 1</i> propose to amend to apply to review engagements) to apply also to all assurance engagements.</p> <p>These requirements are not addressed separately in the other assurance framework and require the assurance practitioner to:</p> <ul style="list-style-type: none"> a. Advise management and where applicable those charged with governance to take appropriate and timely action, if they have not done so already; b. Consider whether management and those charged with governance understand their legal and regulatory responsibilities with respect to non-compliance; and c. Comply with applicable laws and regulations and auditing and assurance standards <p>This would result in a simplification of the framework for assurance practitioners that perform both audit and review engagements and other assurance engagements.</p>	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	The NZAuASB has previously extended the independence requirements for audit and review engagements to other assurance engagements. Similarly, the NZAuASB considers that there is no reason why the assurance practitioner should react differently if the engagement is an audit or some other assurance engagement where the assurance practitioner suspects or identifies NOCLAR. Accordingly, the frameworks for considering NOCLAR for audit and review and other assurance engagements have been combined previously by the Board.
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of	n/a

which results in effective and efficient compliance with the legal framework in NZ.	
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB	<p>Based on a more informed understanding of the other assurance market, the Subcommittee is of the view that the NZAuASB's previously expressed view that the same framework as audit and review engagements is equally appropriate for other assurance may no longer be conclusive.</p> <p>The principles and practices considered appropriate for financial statement assurance may not be the most appropriate for other assurance over other subject matters.</p> <p>In the other assurance arena, the Subcommittee is of the view that we do not have sufficient context to say what practices will be appropriate. Rather, the more principles based approach in the other assurance framework permits a more flexible approach to addressing NOCLAR.</p>
2. The modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	<p>The modification results in consistency between audit and review and other financial assurance engagements. It may not provide such clarity for other types of assurance engagement due to differing reporting structures.</p>
3. The modification will promote significant improvement in audit/assurance quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	<p>The nature of other assurance engagements that assurance practitioners may perform is extremely diverse. These assurance practitioners may not have the same level of access to information, management and those charged with governance as auditors. Additionally, the engagements may be one-off limited scope engagements and their duration relatively short.</p> <p>It is also noted that assurance practitioners do not have the same level of responsibility to respond to identified or suspected non-compliance as do</p>

	<p>auditors, however, they are not precluded from considering the guidance applicable to audits (and as proposed, reviews.)</p> <p>The Subcommittee is of the view that an appropriate response when the assurance practitioner identifies actual or suspected non-compliance is for these matters to be brought to the attention of the entity's auditor (if the entity is audited) as required by paragraphs R360.31-R360.33.</p> <p>Adding the detailed requirements of the audit/review framework (identified at the top of this form under the heading <i>modification</i>) is unlikely to lead to a significant improvement in audit/assurance quality.</p>
<p>4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).</p>	<p>No detailed cost/benefit analysis has been performed.</p>
<p>5. The modification does not conflict with or result in lesser requirements than the international standard.</p>	<p>IESBA notes (paragraph 81-83 of explanatory memorandum) that jurisdictions would not be precluded from extending the proposed framework to cover specific types of assurance engagement other than audits should they believe that doing so would be appropriate for their national contexts.</p>
<p>6. The modification overall does not result in the standard being overly complex and confusing.</p>	<p>The modifications simplify the framework for assurance practitioners who perform audit and review engagements as well as other assurance engagements as the framework would be the same for all engagement types. This is well suited to engagements over financial information.</p> <p>However, the Subcommittee notes that the framework may be overly prescriptive and rules based for other assurance engagements over non-financial information. For such engagements, the subcommittee prefers the principles based approach of the International Code.</p>
<p>7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.</p>	<p>The modification does place more onerous requirements on a practitioner in New Zealand than necessary to meet the intent of the International Code.</p>

Conclusion	Based on the above, the Subcommittee is of the view that the compelling reason test has not been met.
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Modification 2c: Align requirements for other assurance engagements with those for audit engagements – Further Action is Needed

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>We propose to expand section 360, paragraphs R360.19 – 360.21 A2 that apply only to auditors performing audits of financial statements (and as per <i>modification 1</i> propose to amend to apply to review engagements) to apply also to all assurance engagements.</p> <p>Paragraphs R360.36 – 360.36 A2 would be deleted.</p> <p>The other assurance framework requires the assurance practitioner to <i>consider</i> whether further action is needed in the public interest.</p> <p>Under the modification, the assurance practitioner would:</p> <ol style="list-style-type: none"> Assess the appropriateness of the response; Determine if further action is needed in the public interest; and Exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the assurance practitioner has acted appropriately in the public interest. <p>This would result in a simplification of the framework for assurance practitioners that perform both audit and review engagements and other assurance engagements.</p>	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	The NZAuASB has previously extended the independence requirements for audit and review engagements to other assurance engagements. Similarly, the NZAuASB considers that there is no reason why the assurance practitioner should react differently if the engagement is an audit or some other assurance engagement where the assurance practitioner suspects or identifies NOCLAR. Accordingly, the frameworks for considering NOCLAR for audit and review and other assurance engagements have been combined by the Board.
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>

The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ.	n/a
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB	<p>Based on a more informed understanding of the other assurance market, the Subcommittee is of the view that the NZAuASB's previously expressed view that the same framework as audit and review engagements is equally appropriate for other assurance may no longer be conclusive.</p> <p>The principles and practices considered appropriate for financial statement assurance may not be the most appropriate for other assurance over other subject matters.</p> <p>In the other assurance arena, the Subcommittee is of the view that we do not have sufficient context to say what practices will be appropriate. Rather, the more principles based approach in the other assurance framework permits a more flexible approach to addressing NOCLAR.</p>
2. The modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	<p>The modification results in consistency between audit and review and other financial assurance engagements. It may not provide such clarity for other types of assurance engagement due to differing reporting structures.</p>
3. The modification will promote significant improvement in audit quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	<p>In order to determine/consider whether further action is needed in the public interest, the assurance practitioner would first need to assess the appropriateness of the action taken. The assurance practitioner is required by ISAE (NZ) 3000 to exercise professional judgement. In addition, the conceptual framework requires the assurance practitioner to exercise professional judgement, remain alert for</p>

	<p>new information and use the reasonable and informed third-party test².</p> <p>The subcommittee is of the view that two frameworks achieve substantially the same result. Adding the more prescriptive requirements identified in the modification may not lead to a significant improvement in audit/assurance quality.</p> <p>Streamlining the requirements is identified as nice to have for assurance engagements over financial information rather than a compelling reason to change.</p>
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit analysis has been performed.
5. The modification does not conflict with or result in lesser requirements than the international standard.	IESBA notes (paragraph 81-83 of explanatory memorandum) that jurisdictions would not be precluded from extending the proposed framework to cover specific types of assurance engagement other than audits should they believe that doing so would be appropriate for their national contexts.
6. The modification overall does not result in the standard being overly complex and confusing.	<p>The modifications simplify the framework for assurance practitioners who perform audit and review engagements as well as other assurance engagements as the framework would be the same for all engagement types. This is well suited to engagements over financial information.</p> <p>However, the Subcommittee notes that the framework may be overly prescriptive and rules based for other assurance engagements over non-financial information. For such engagements, the subcommittee prefers the principles based approach of the International Code.</p>
7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.	The modification does place more onerous requirements on a practitioner in New Zealand than necessary to meet the intent of the International Code.

² Paragraph R120.5

Conclusion	Based on the above, the Subcommittee is of the view that the compelling reason test has not been met.
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Modification 2d: Align requirements for other assurance engagements with those for audit engagements –Documentation

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>The IESBA Code requires certain matters to be documented for audit (and, as proposed per modification 1, review) engagements. Documentation for other assurance engagements is <i>encouraged</i>. The NZ proposal is to specify certain matters to be documented for other assurance engagements consistent with other assurance standards.</p> <p>Paragraph 360.40 A1 is deleted and replaced with the following wording:</p> <p>International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ)) and International Standard on Review Engagements (New Zealand) (ISRE (NZ)) require an assurance practitioner performing an assurance engagement to:</p> <ul style="list-style-type: none"> • Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions; • Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. <p>The modification has the effect of requiring rather than encouraging documentation in all assurance engagements, which would be required by the other assurance standard in any event.</p>	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	The ISAEs (NZ) <i>require</i> rather than encourage documentation, therefore expanding the audit documentation requirement to all assurance engagements would be consistent with principles and practices required by those standards.
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of which results in effective and efficient	n/a

compliance with the legal framework in NZ.	
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
1. The application of the modification will result in compliance with principles and practices considered appropriate by the NZAuASB	The ISAEs (NZ) already require rather than encourage documentation, therefore expanding the audit documentation requirement to all assurance engagements would be consistent with principles and practices required by those standards.
2. The modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	The modifications would reduce inconsistencies between the Code of Ethics and the requirements of the other assurance standards.
3. The modification will promote significant improvement in audit quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	The Subcommittee is of the view that the matters the assurance practitioner is "encouraged" to document would ordinarily be required to be documented in accordance with ISAE (NZ) 3000 (revised) and subject matter specific ISAEs (NZ) and SAEs (see the analysis of the comparison of audit/review provisions with those for other assurance engagements). As such, the Subcommittee does not agree that the compelling reason test has been met with respect to significant improvement in audit quality.
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit analysis has been performed. The following explanation was provided in the compelling reason test when the Board initially considered the amendments to the IESBA NOCLAR provisions. The Subcommittee has no evidence on which to support this statement. The benefits are expected to exceed the costs. Documentation is required by the other assurance standards and should already be done therefore the cost of the requirement is expected to be minimal. The benefit of good documentation is expected to have benefits on the quality of the assurance

	engagement, to assist in the event that a reasonable person needs to review the file at a later stage and reflect on whether appropriate conclusions and actions were taken. Good documentation will protect the practitioner, and is therefore in their interest to do this.
5. The modification does not conflict with or result in lesser requirements than the international standard.	IESBA notes (paragraph 81-83 of explanatory memorandum) that jurisdictions would not be precluded from extending the proposed framework to cover specific types of assurance engagement other than audits should they believe that doing so would be appropriate for their national contexts.
6. The modification overall does not result in the standard being overly complex and confusing.	<p>The modifications simplify the framework for assurance practitioners who perform audit and review engagements as well as other assurance engagements as the framework would be the same for all engagement types. This is well suited to engagements over financial information.</p> <p>However, the Subcommittee notes that the framework may be overly prescriptive and rules based for other assurance engagements over non-financial information. For such engagements, the subcommittee prefers the principles based approach of the International Code.</p>
7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.	The modification does place more onerous requirements on a practitioner in New Zealand than necessary to meet the intent of the International Code.
Conclusion	Compelling reason test not met. As noted above, the Subcommittee is of the view that the additional requirements are unlikely to achieve a significant increase in assurance quality.

Comparison of Restructured IESBA Code Provisions for responding to NOCLAR

This tables compares the provisions of the restructured International Code for responding to NOCLAR for audit and review engagements with the provisions for responding to NOCLAR for other assurance engagements. The text of extant PES 1 (Revised) has been included for reference.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ in include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
New paragraph	360.1 Professional accountants <u>assurance practitioners</u> are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.	360.1 Professional accountants <u>assurance practitioners</u> are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.	Applicable to all engagements
New paragraph	360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when <u>an assurance practitioner</u> professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.	360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when <u>an assurance practitioner</u> professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.	Applicable to all engagements
225.1 An assurance practitioner may encounter or be made aware of non-compliance or suspected non-compliance with laws and	360.3 <u>An assurance practitioner</u> professional accountant might encounter or be made aware of non-compliance or suspected non-	360.3 <u>An assurance practitioner</u> professional accountant might encounter or be made aware of non-compliance or suspected non-	Applicable to all engagements

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>regulations in the course of providing a professional service to a client. The purpose of this section is to set out the assurance practitioner's responsibilities when encountering such non-compliance or suspected non-compliance, and guide the assurance practitioner in assessing the implications of the matter and the possible courses of action when responding to it. This section applies regardless of the nature of the client, including whether or not it is a public interest entity.</p> <p>225.5 This section sets out the approach to be taken by an assurance practitioner who encounters or is made aware of non-compliance or suspected non-compliance with:</p> <p>(a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures</p>	<p>compliance in the course of providing a professional service to a client. This section guides the accountant <u>assurance practitioner</u> in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:</p> <p>(a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the <u>underlying subject matter information</u> (for example, the client's financial statements in an <u>audit engagement</u>); and</p> <p>(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the <u>underlying subject matter information</u> client's financial statements, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its</p>	<p>compliance in the course of providing a professional service to a client. This section guides the accountant <u>assurance practitioner</u> in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:</p> <p>(a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the <u>underlying subject matter information</u> (for example, the client's financial statements in an <u>audit engagement</u>); and</p> <p>(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the <u>underlying subject matter information</u> client's financial statements, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its</p>	

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>in the client's financial statements; and</p> <p>(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements but compliance with which may be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.</p>	<p>business, or to avoid material penalties.</p>	<p>business, or to avoid material penalties.</p>	
	<p>Objectives of the Professional Accountant Assurance Practitioner in Relation to Non-compliance with Laws and Regulations</p>	<p>Objectives of the Professional Accountant Assurance Practitioner in Relation to Non-compliance with Laws and Regulations</p>	
<p>225.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the assurance practitioner are:</p>	<p>360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional</p>	<p>360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional</p>	<p>Applicable to all engagements</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>(a) To comply with the fundamental principles of integrity and professional behaviour;</p> <p>(b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:</p> <p>(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or</p> <p>(ii) Deter the commission of the non-compliance where it has not yet occurred; and</p> <p>(c) To take such further action as appropriate in the public interest.</p>	<p>accountant <u>assurance practitioner</u> are:</p> <p>(a) To comply with the principles of integrity and professional behavior;</p> <p>(b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:</p> <p>(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or</p> <p>(ii) Deter the commission of the non-compliance where it has not yet occurred; and</p> <p>(c) To take such further action as appropriate in the public interest.</p>	<p>accountant <u>assurance practitioner</u> are:</p> <p>(a) To comply with the principles of integrity and professional behavior;</p> <p>(b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:</p> <p>(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or</p> <p>(ii) Deter the commission of the non-compliance where it has not yet occurred; and</p> <p>(c) To take such further action as appropriate in the public interest.</p>	
	<p>Requirements and Application Material</p> <p>General</p>	<p>Requirements and Application Material</p> <p>General</p>	

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>225.2 Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, committed by a client, or by those charged with governance, by management or by other individuals working for or under the direction of a client which are contrary to the prevailing laws or regulations.</p>	<p>360.5 A1 Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</p> <ul style="list-style-type: none"> (a) A client; (b) Those charged with governance of a client; (c) Management of a client; or (d) Other individuals working for or under the direction of a client. 	<p>360.5 A1 Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</p> <ul style="list-style-type: none"> (a) A client; (b) Those charged with governance of a client; (c) Management of a client; or (d) Other individuals working for or under the direction of a client. 	Applicable to all engagements
<p>225.6 Examples of laws and regulations which this section addresses include those that deal with:</p> <ul style="list-style-type: none"> • Fraud, corruption and bribery. • Money laundering, terrorist financing and proceeds of crime. • Securities markets and trading. 	<p>360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:</p> <ul style="list-style-type: none"> • Fraud, corruption and bribery. • Money laundering, terrorist financing and proceeds of crime. • Securities markets and trading. 	<p>360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:</p> <ul style="list-style-type: none"> • Fraud, corruption and bribery. • Money laundering, terrorist financing and proceeds of crime. • Securities markets and trading. 	Applicable to all engagements

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<ul style="list-style-type: none"> • Banking and other financial products and services. • Data protection. • Tax and pension liabilities and payments. • Environmental protection. • Public health and safety. 	<ul style="list-style-type: none"> • Banking and other financial products and services. • Data protection. • Tax and pension liabilities and payments. • Environmental protection. • Public health and safety. 	<ul style="list-style-type: none"> • Banking and other financial products and services. • Data protection. • Tax and pension liabilities and payments. • Environmental protection. • Public health and safety. 	
<p>225.7 Non-compliance may result in fines, litigation or other consequences for the client that may have a material effect on its financial statements. Importantly, such non-compliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in</p>	<p>360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in</p>	<p>360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in</p>	<p>Applicable to all engagements</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.	significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.	significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.	
<p>225.3 In some cases, there are legal or regulatory provisions governing how assurance practitioners should address non-compliance or suspected non-compliance which may differ from or go beyond this section. When encountering such non-compliance or suspected non-compliance, the assurance practitioner has a responsibility to obtain an understanding of those provisions and comply with them, including any requirement to report the matter to an appropriate authority and <i>any prohibition on alerting the client prior to making any disclosure, for example, pursuant to anti-money laundering legislation.</i></p>	<p>R360.6 In some <u>jurisdictions</u> cases, there are legal or regulatory provisions governing how <u>professional accountants assurance practitioners</u> should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant <u>assurance practitioner</u> shall obtain an understanding of those legal or regulatory provisions and comply with them, including:</p> <p>(a) Any requirement to report the matter to an appropriate authority; and</p>	<p>R360.6 In some <u>jurisdictions</u> cases, there are legal or regulatory provisions governing how <u>professional accountants assurance practitioners</u> should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant <u>assurance practitioner</u> shall obtain an understanding of those legal or regulatory provisions and comply with them, including:</p> <p>(a) Any requirement to report the matter to an appropriate authority; and</p>	Applicable to all engagements

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
	(b) Any prohibition on alerting the client.	(b) Any prohibition on alerting the client.	
225.3 ... <i>any prohibition on alerting the client prior to making any disclosure, for example, pursuant to anti-money laundering legislation.</i>	360.6 A1 A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.	360.6 A1 A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.	Applicable to all engagements
225.1 This section applies regardless of the nature of the client, including whether or not it is a public interest entity.	360.7 A1 This section applies regardless of the nature of the client, including whether or not it is a public interest entity.	360.7 A1 This section applies regardless of the nature of the client, including whether or not it is a public interest entity.	Applicable to all engagements
225.8 An assurance practitioner who encounters or is made aware of matters that are clearly inconsequential, judged by their nature and their impact, financial or otherwise, on the client, its stakeholders and the general public, is not required to comply with this section with respect to such matters.	360.7 A2 <u>An assurance practitioner</u> professional accountant who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client, its stakeholders and the general public.	360.7 A2 <u>An assurance practitioner</u> professional accountant who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client, its stakeholders and the general public.	Applicable to all engagements
225.9 This section does not address:	360.7 A3 This section does not address:	360.7 A3 This section does not address:	Applicable to all engagements

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>(a) Personal misconduct unrelated to the business activities of the client; and</p> <p>(b) Non-compliance other than by the client or those charged with governance, management or other individuals working for or under the direction of the client. This includes, for example, circumstances where an assurance practitioner has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third party.</p> <p>The assurance practitioner may nevertheless find the guidance in this section helpful in considering how to respond in these situations.</p>	<p>(a) Personal misconduct unrelated to the business activities of the client; and</p> <p>(b) Non-compliance by parties other than those specified in paragraph 360.5 A1. This includes, for example, circumstances where an <u>assurance practitioner</u> professional accountant has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third-party.</p> <p>The accountant <u>assurance practitioner</u> might nevertheless find the guidance in this section helpful in considering how to respond in these situations.</p>	<p>(a) Personal misconduct unrelated to the business activities of the client; and</p> <p>(b) Non-compliance by parties other than those specified in paragraph 360.5 A1. This includes, for example, circumstances where an <u>assurance practitioner</u> professional accountant has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third-party.</p> <p>The accountant <u>assurance practitioner</u> might nevertheless find the guidance in this section helpful in considering how to respond in these situations.</p>	

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
Responsibilities of the Client's Management and Those Charged with Governance	Responsibilities of Management and Those Charged with Governance	Responsibilities of Management and Those Charged with Governance	
225.10 It is the responsibility of the client's management, with the oversight of those charged with governance, to ensure that the client's business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and those charged with governance to identify and address any non-compliance by the client, by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the client.	360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by: (a) The client; (b) An individual charged with governance of the entity; (c) A member of management; or (d) Other individuals working for or under the direction of the client.	360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by: (a) The client; (b) An individual charged with governance of the entity; (c) A member of management; or (d) Other individuals working for or under the direction of the client.	Applicable to all engagements

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
Responsibilities of Assurance Practitioners [#]	Responsibilities of All Professional Accountants Assurance Practitioners	Responsibilities of All Professional Accountants Assurance Practitioners	
225.11 Where an assurance practitioner becomes aware of a matter to which this section applies, the steps that the assurance practitioner takes to comply with this section shall be taken on a timely basis, having regard to the assurance practitioner's understanding of the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.	R360.9 Where an <u>assurance practitioner</u> professional accountant becomes aware of a matter to which this section applies, the steps that the <u>assurance practitioner</u> accountant takes to comply with this section shall be taken on a timely basis. In taking timely steps, the accountant <u>assurance practitioner</u> shall have regard to the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.	R360.9 Where an <u>assurance practitioner</u> professional accountant becomes aware of a matter to which this section applies, the steps that the <u>assurance practitioner</u> accountant takes to comply with this section shall be taken on a timely basis. In taking timely steps, the accountant <u>assurance practitioner</u> shall have regard to the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.	Applicable to all engagements

[#] Paragraphs 225.12 – 225.38 have been expanded in PES 1 (Revised) to apply to all assurance engagements in New Zealand. Paragraphs 225.39- 56 of the IESBA Code of Ethics that cover Professional Services Other than Audits of Financial Statements have therefore not been included.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<i>Obtaining an Understanding of the Matter</i>	Audits and Reviews of Financial Statements <i>Obtaining an Understanding of the Matter</i>	Professional Services Other than Audits of Financial Statements <i>Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance</i>	
225.12 If an assurance practitioner engaged to perform an assurance engagement becomes aware of information concerning an instance of non-compliance or suspected non-compliance, <i>whether in the course of performing the engagement or through information provided by other parties</i> , the assurance practitioner shall obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur.	R360.10 If an <u>assurance practitioner</u> professional accountant engaged to perform an audit <u>or review</u> of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the accountant <u>assurance practitioner</u> shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.	R360.29 If an <u>assurance practitioner</u> professional accountant engaged to provide an <u>assurance</u> professional service other than an audit <u>or review</u> of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the accountant <u>assurance practitioner</u> shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might be about to occur.	Substantially the same requirement. If the assurance practitioner is unable to obtain an understanding of the matter, regardless of engagement type, the practitioner will need to consider the implications for the engagement and the assurance report. The difference in wording recognises the particular nature of auditors' remit and the higher public expectations of them ¹ .

¹ IESBA Exposure Draft, *Responding to Non-compliance with Laws and Regulations*, paragraph 41, May 2015

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
225.12 ... <i>whether in the course of performing the engagement or through information provided by other parties,</i>	360.10 A1 The professional accountant <u>assurance practitioner</u> might become aware of the non-compliance or suspected non-compliance in the course of performing the engagement or through information provided by other parties.		No equivalent application material included under IESBA other assurance engagement provisions. Identified as “nice to have” for purposes of the compelling reason test.
225.13 The assurance practitioner is expected to apply knowledge, professional judgement and expertise, but is not expected to have a level of knowledge of laws and regulations that is greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. <i>Depending on the nature and significance of the matter, the assurance practitioner may consult on a confidential basis with others within the firm, a network firm or a</i>	360.10 A2 The professional accountant <u>assurance practitioner</u> is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant <u>assurance practitioner</u> is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.	360.29 A1 The professional accountant <u>assurance practitioner</u> is expected to apply knowledge and expertise, and exercise professional judgment. However, the accountant <u>assurance practitioner</u> is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional assurance <u>service</u> for which the accountant <u>assurance practitioner</u> was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.	Application material is the same for both audit/review and other assurance.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<i>professional body, or with legal counsel.</i>			
225.13 ... Depending on the nature and significance of the matter, the assurance practitioner may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.	360.10 A3 Depending on the nature and significance of the matter, the professional accountant <u>assurance practitioner</u> might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.	360.29 A2 Depending on the nature and significance of the matter, the professional accountant <u>assurance practitioner</u> might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.	Application material is the same for both audit/review and other assurance.
225.14 If the assurance practitioner identifies or suspects that non-compliance has occurred or may occur, the assurance practitioner shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.	R360.11 If the professional accountant <u>assurance practitioner</u> identifies or suspects that non-compliance has occurred or might occur, the accountant-assurance practitioner shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.	R360.30 If the <u>assurance practitioner</u> professional accountant identifies or suspects that non-compliance has occurred or might occur, the accountant-assurance practitioner shall discuss the matter with the appropriate level of management. <u>If the accountant assurance practitioner has access to those charged with governance, the accountant-assurance practitioner</u>	Substantially the same requirement, although R360.30 recognises that in some circumstances the assurance practitioner may not have access to those charged with governance. This discussion enables assurance practitioners to clarify their understanding of the matter, including its potential consequences. In practice, it is expected that the situation will

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
		shall also discuss the matter with them where appropriate.	often be resolved through such discussion.
225.15 Such discussion serves to clarify the assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also may prompt management or those charged with governance to investigate the matter.	360.11 A1 The purpose of the discussion is to clarify the <u>professional accountant's assurance practitioner's</u> understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.	360.30 A1 The purpose of the discussion is to clarify the <u>professional accountant's assurance practitioner's</u> understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.	Application material is the same for both audit/review and other assurance.
225.16 The appropriate level of management with whom to discuss the matter is a question of professional judgement. Relevant factors to consider include: <ul style="list-style-type: none">• The nature and circumstances of the matter.	360.11 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include: <ul style="list-style-type: none">• The nature and circumstances of the matter.	360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include: <ul style="list-style-type: none">• The nature and circumstances of the matter.	Application material is the same for both audit/review and other assurance.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<ul style="list-style-type: none"> • The individuals actually or potentially involved. • The likelihood of collusion. • The potential consequences of the matter. • Whether that level of management is able to investigate the matter and take appropriate action. 	<ul style="list-style-type: none"> • The individuals actually or potentially involved. • The likelihood of collusion. • The potential consequences of the matter. • Whether that level of management is able to investigate the matter and take appropriate action. 	<ul style="list-style-type: none"> • The individuals actually or potentially involved. • The likelihood of collusion. • The potential consequences of the matter. • Whether that level of management is able to investigate the matter and take appropriate action. 	
<p>225.17 The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter. <i>If the assurance practitioner believes that management is involved in the non-compliance or suspected non-compliance, the assurance practitioner shall discuss the matter with those charged with governance. The assurance practitioner may also consider discussing the matter with internal auditors, where applicable.</i> In the context of a group, the appropriate</p>	<p>360.11 A3 The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the context of a group, the appropriate level might be management at an entity that controls the client.</p>		<p>No equivalent application material included under IESBA other assurance engagement provisions. Identified as “nice to have” for purposes of the compelling reason test.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
level may be management at an entity that controls the client.			
225.17 ... <i>The assurance practitioner may also consider discussing the matter with internal auditors, where applicable.</i>	360.11 A4 The professional accountant <u>assurance practitioner</u> might also consider discussing the matter with internal auditors, where applicable.		No equivalent application material included under IESBA other assurance engagement provisions. Identified as “nice to have” for purposes of the compelling reason test.
225.17 <i>If the assurance practitioner believes that management is involved in the non-compliance or suspected non-compliance, the assurance practitioner shall discuss the matter with those charged with governance.</i>	R360.12 If the professional accountant <u>assurance practitioner</u> believes that management is involved in the non-compliance or suspected non-compliance, the accountant <u>assurance practitioner</u> shall discuss the matter with those charged with governance.	R360.30 If the accountant <u>assurance practitioner</u> has access to those charged with governance, the accountant <u>assurance practitioner</u> shall also discuss the matter with them where appropriate.	For other assurance engagements, this is implied by R360.30 (second sentence). It would always be appropriate to discuss non-compliance with those charged with governance when management is suspected of being involved. In addition, paragraphs R360.30-R360.33 require communication to the firm/external auditor who can then address the matter with those charged with governance, as appropriate.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<i>Addressing the Matter</i>	<i>Addressing the Matter</i>		
<p>225.18 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the assurance practitioner shall advise them to take appropriate and timely actions, if they have not already done so, to:</p> <ul style="list-style-type: none"> (a) Rectify, remediate or mitigate the consequences of the non-compliance; (b) Deter the commission of the non-compliance where it has not yet occurred; or (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest. 	<p>R360.13 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the professional accountant <u>assurance practitioner</u> shall advise them to take appropriate and timely actions, if they have not already done so, to:</p> <ul style="list-style-type: none"> (a) Rectify, remediate or mitigate the consequences of the non-compliance; (b) Deter the commission of the non-compliance where it has not yet occurred; or (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest. 		<p>Requirement is to advise the client to take appropriate and timely actions if they have not already done so. This adds specificity to the requirement in R360.11 which requires the assurance practitioner to discuss the matter.</p> <p>The other assurance framework is less prescriptive, recognizing the need for flexibility and professional judgement.</p> <p>The Subcommittee view is that including such a requirement in the framework for other assurance engagements may be beyond the assurance practitioner's knowledge and authority.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
225.19 The assurance practitioner shall consider whether the client's management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance. <i>If not, the assurance practitioner may suggest appropriate sources of information or recommend that they obtain legal advice.</i>	R360.14 The professional accountant <u>assurance practitioner</u> shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance.		Requirement is for the assurance practitioner to consider whether management and those charged with governance understand their responsibilities with respect to NOCLAR. The Code does not specify actions when management and those charged with governance do not understand their legal or regulatory responsibilities with respect to NOCLAR. The Subcommittee view is that including such a requirement in the framework for other assurance engagements is unlikely to lead to a significant improvement in assurance quality and in some cases will be difficult to determine, therefore does not meet the compelling reason test.
225.19 ... <i>If not, the assurance practitioner may suggest appropriate sources of information or recommend that they obtain legal advice.</i>	360.14 A1 If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the professional accountant <u>assurance</u>		No equivalent application material included under IESBA other assurance engagement provisions. This may be outside the expertise of the assurance practitioner. A more

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
	<u>practitioner</u> might suggest appropriate sources of information or recommend that they obtain legal advice.		appropriate response is to bring this to the auditor/reviewer's attention through complying with the requirement in R360.31-35.
<p>225.20 The assurance practitioner shall comply with applicable:</p> <p>(a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority. <i>In this regard, some laws and regulations may stipulate a period within which reports are to be made;</i> and</p> <p>(b) Requirements under auditing and assurance standards, including those relating to:</p> <ul style="list-style-type: none"> Identifying and responding to non-compliance, including fraud. Communicating with those charged with governance. 	<p>R360.15 The professional accountant<u>assurance practitioner</u> shall comply with applicable:</p> <p>(a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and</p> <p>(b) Requirements under auditing and review standards, including those relating to:</p> <ul style="list-style-type: none"> Identifying and responding to non-compliance, including fraud. Communicating with those charged with governance. Considering the implications of the non-compliance or 		<p>The assurance practitioner has an obligation to comply with laws and regulations and auditing and assurance standards regardless of whether or not such requirements are noted in the Code. This is noted in the compelling reason test for the extant changes: <i>Requiring compliance with laws and regulations and the auditing and assurance standards would already be required by the legislation and those standards, so whilst expanding that provision in itself may not have any impact on audit quality, it would simplify and streamline the Code.</i></p> <p>This change is identified as “nice to have” for purposes of the compelling reason test.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<ul style="list-style-type: none"> Considering the implications of the non-compliance or suspected non-compliance for the assurance report. 	suspected non-compliance for the auditor's report.		
225.20 ... <i>In this regard, some laws and regulations may stipulate a period within which reports are to be made;</i>	360.15 A1 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.		Application material. When this is the case, the assurance practitioner would be required by legislation to comply.
<i>Communication with Respect to Groups</i>	Communication with Respect to Groups	<i>Communicating the Matter to the Entity's External Auditor</i>	
<p>NZ225.21.1 An assurance practitioner may:</p> <p>(a) For purposes of an audit of group financial statements, be requested by the group engagement team to perform work on financial information related to a component of the group; or</p> <p>(b) Be engaged to perform an audit or review of a component's financial statements for</p>	<p>R360.16 Where an <u>assurance practitioner</u> professional accountant becomes aware of non-compliance or suspected non-compliance in relation to a component of a group in either of the following two situations, the <u>assurance practitioner</u> accountant shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:</p>		<p>These are communication requirements specific to audits of group financial statements and are therefore not applicable to other assurance engagements.</p> <p>R360.31 – R360.35 A1 detail the other assurance practitioner's communications with the external auditor.</p> <p>NB: NZ paragraph notation relates to the addition of "or review".</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>purposes other than the group audit, for example, a statutory audit.</p> <p>Where the assurance practitioner becomes aware of non-compliance or suspected non-compliance in relation to the component in either situation, the assurance practitioner shall, in addition to responding to the matter in accordance with the provisions of this section, communicate it to the group engagement partner unless prohibited from doing so by law or regulation.</p>	<p>(a) The accountant-assurance practitioner is, for purposes of an audit of the group financial statements, requested by the group engagement team to perform work on financial information related to the component; or</p> <p>(b) The accountant-assurance practitioner is engaged to perform an audit <u>or review</u> of the component's financial statements for purposes other than the group audit, for example, a statutory audit.</p> <p>The communication to the group engagement partner shall be in addition to responding to the matter in accordance with the provisions of this section.</p>		
<p>NZ225.21.1 This is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how it should be addressed in</p>	<p>360.16 A1 The purpose of the communication is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how</p>		<p>These are communication requirements specific to audits of group financial statements and are therefore not applicable to other assurance engagements.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
accordance with the provisions in this section.	to address it in accordance with the provisions in this section. The communication requirement in paragraph R360.16 applies regardless of whether the group engagement partner's firm or network is the same as or different from the professional accountant <u>assurance practitioner</u> 's firm or network.		R360.31 – R360.35 A1 detail the assurance practitioner's communications with the external auditor. NB: Paragraph does not require NZ notation under restructure.
NZ225.22.1 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, including as a result of being informed of such a matter in accordance with paragraph 225.21, the group engagement partner shall, in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section, consider whether the matter may be relevant to one or more components:	R360.17 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, the group engagement partner shall consider whether the matter might be relevant to one or more components: (a) Whose financial information is subject to work for purposes of the audit of the group financial statements; or (b) Whose financial statements are subject to audit <u>or review</u> for purposes other than the group		These are communication requirements specific to audits of group financial statements and are therefore not applicable to other assurance engagements. R360.31 – R360.35 A1 detail the assurance practitioner's communications with the external auditor/reviewer. NB: NZ paragraph notation relates to the addition of "or review".

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>(a) Whose financial information is subject to work for purposes of the audit of the group financial statements; or</p> <p>(b) Whose financial statements are subject to audit or review for purposes other than the group audit, for example, a statutory audit.</p> <p><i>If so, the group engagement partner shall take steps to have the non-compliance or suspected non-compliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation. If necessary in relation to subparagraph (b), appropriate enquiries shall be made (either of management or from publicly available information) as to whether the relevant component(s) is subject to audit or review and, if so, to ascertain to the extent practicable the identity of the auditor. The communication is to enable those responsible for work at</i></p>	<p>audit, for example, a statutory audit.</p> <p>This consideration shall be in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section.</p>		

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<i>such components to be informed about the matter and to determine whether and, if so, how it should be addressed in accordance with the provisions in this section.</i>			
NZ225.22.1 ...If so, the group engagement partner shall take steps to have the non-compliance or suspected non-compliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation. If necessary in relation to subparagraph (b), appropriate enquiries shall be made (either of management or from publicly available information) as to whether the relevant component(s) is subject to audit or review and, if so, to ascertain to the extent practicable the identity of the auditor...	R360.18 If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph R360.17(a) and (b), the group engagement partner shall take steps to have the matter communicated to those performing work at the components, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant component(s) specified in paragraph R360.17(b) is subject to audit or review and, if so, to ascertain to the extent		These are communication requirements specific to audits of group financial statements and are therefore not applicable to other assurance engagements. R360.31 – R360.35 A1 detail the assurance practitioner's communications with the external auditor. NB: NZ paragraph notation relates to the addition of "or review".

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
	practicable the identity of the auditor.		
NZ225.22.1 ... <i>The communication is to enable those responsible for work at such components to be informed about the matter and to determine whether and, if so, how it should be addressed in accordance with the provisions in this section.</i>	360.18 A1 The purpose of the communication is to enable those responsible for work at the components to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing work at the components.		These are communication requirements specific to audits of group financial statements and are therefore not applicable to other assurance engagements. R360.31 – R360.35 A1 detail the assurance practitioner's communications with the external auditor. Paragraph does not require NZ notation under restructure.
NZ225.17.1 If the assurance practitioner is performing a non-audit service for an audit client of the firm, or a component of an audit client the assurance practitioner shall communicate non-compliance or suspected non-compliance within		R360.31 If the professional accountant <u>assurance practitioner</u> is performing a non-audit service for: (a) An audit client of the firm; or (b) A component of an audit client of the firm,	R360.31 – R360.35 A1 address the assurance practitioner's communications with the external auditor. Paragraphs R360.16 – 360.18 A1 are specific to audits of group financial statements.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.		the accountant assurance practitioner shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.	If the Board agrees with the Subcommittee recommendation to separate the audit/review and other assurance provisions, NZ225.17.1 – NZ225.17.5 would no longer require to be marked as NZ paragraphs.
NZ225.17.2 If the assurance practitioner is performing a non-audit service for an audit client of a network firm, or a component of an audit client of a network firm, the assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures or, in the absence of such protocols and procedures,		R360.32 If the professional accountant assurance practitioner is performing a non-audit service for: (a) An audit client of a network firm; or (b) A component of an audit client of a network firm, the assurance practitioner accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in	R360.31 – R360.35 A1 address the assurance practitioner's communications with the external auditor. Paragraphs R360.16 – 360.18 A1 address communications specific to a group audit situation.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
directly to the audit engagement partner.		accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.	
<p>NZ225.17.3 If the assurance practitioner is performing a non-audit service for a client that is not:</p> <p>(a) An audit client of the firm or a network firm; or</p> <p>(b) A component of an audit client of the firm or network firm,</p> <p>the assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external auditor, if any.</p>		<p>R360.33 If the <u>assurance practitioner</u> professional accountant is performing a non-audit service for a client that is not:</p> <p>(a) An audit client of the firm or a network firm; or</p> <p>(b) A component of an audit client of the firm or a network firm,</p> <p>the <u>assurance practitioner</u> accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external auditor, if any.</p>	R360.31 – R360.35 A1 address the assurance practitioner's communications with the external auditor. Paragraphs R360.16 – 360.18 A1 address communications specific to a group audit situation.
		Relevant Factors to Consider	
NZ225.17.4 Factors relevant to considering the communication in		360.34 A1 Factors relevant to considering the communication in	R360.31 – R360.35 A1 address the assurance practitioner's communications with the external

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>accordance with paragraphs NZ225.17.2 and NZ225.17.3 include:</p> <ul style="list-style-type: none"> • Whether doing so would be contrary to law or regulation. • Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance. • Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action. • Whether management or those charged with governance have already informed the entity's external auditor about the matter. • The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely 		<p>accordance with paragraphs R360.31 to R360.33 include:</p> <ul style="list-style-type: none"> • Whether doing so would be contrary to law or regulation. • Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance. • Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action. • Whether management or those charged with governance have already informed the entity's external auditor about the matter. • The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely 	<p>auditor. Paragraphs R360.16 – 360.18 A1 address communications specific to a group audit situation.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
materiality to the audit of the group financial statements.		materiality to the audit of the group financial statements.	
		Purpose of Communication	
NZ225.17.5 In all cases, the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how it should be addressed in accordance with the provisions of this section.		360.35 A1 In the circumstances addressed in paragraphs R360.31 to R360.33, the purpose of the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of this section.	R360.31 – R360.35 A1 address the assurance practitioner's communications with the external auditor. Paragraphs R360.16 – 360.18 A1 address communications specific to a group audit situation.
<i>Determining Whether Further Action is Needed</i>	<i>Determining Whether Further Action Is Needed</i>	<i>Considering Whether Further Action Is Needed</i>	
225.23 The assurance practitioner shall assess the appropriateness of the response of management and, where applicable, those charged with governance.	R360.19 The professional accountant <u>assurance practitioner</u> shall assess the appropriateness of the response of management and, where applicable, those charged with governance.		This is a necessary action to achieve the requirement of R360.36 which is to consider whether further action is needed in the public interest. As implicit in R360.36 this is identified

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			as “nice to have” for purposes of the compelling reason test.
<p>225.24 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:</p> <ul style="list-style-type: none"> • The response is timely. • The non-compliance or suspected non-compliance has been adequately investigated. • Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance. • Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred. • Appropriate steps have been, or are being, taken to reduce the 	<p>360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:</p> <ul style="list-style-type: none"> • The response is timely. • The non-compliance or suspected non-compliance has been adequately investigated. • Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance. • Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred. 		<p>No equivalent application material included under IESBA other assurance engagement provisions. Identified as “nice to have” for purposes of the compelling reason test.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>risk of re-occurrence, for example, additional controls or training.</p> <ul style="list-style-type: none"> The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate. 	<ul style="list-style-type: none"> Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training. The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate. 		
<p>225.25 In light of the response of management and, where applicable, those charged with governance, the assurance practitioner shall determine if further action is needed in the public interest.</p>	<p>R360.20 In light of the response of management and, where applicable, those charged with governance, the professional accountant shall determine if further action is needed in the public interest.</p>	<p>R360.36 The professional accountant <u>assurance practitioner</u> shall also consider whether further action is needed in the public interest.</p>	<p>Such action cannot be determined without (as per R360.19) first assessing the appropriateness of the action taken. The Subcommittee is of the view that an assessment of the appropriateness of the response of management or those charged with governance must be performed in order to determine/consider whether further action is needed.</p>
<p>225.26 The determination of whether further action is needed,</p>	<p>360.20 A1 The determination of whether further action is needed,</p>	<p>360.36 A1 Whether further action is needed, and the nature</p>	<p>Similar guidance.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>and the nature and extent of it, will depend on various factors, including:</p> <ul style="list-style-type: none"> • The legal and regulatory framework. • The urgency of the matter. • The pervasiveness of the matter throughout the client. • Whether the assurance practitioner continues to have confidence in the integrity of management and, where applicable, those charged with governance. • Whether the non-compliance or suspected non-compliance is likely to recur. • Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public. 	<p>and the nature and extent of it, will depend on various factors, including:</p> <ul style="list-style-type: none"> • The legal and regulatory framework. • The urgency of the situation. • The pervasiveness of the matter throughout the client. • Whether the <u>professional accountant-assurance practitioner</u> continues to have confidence in the integrity of management and, where applicable, those charged with governance. • Whether the non-compliance or suspected non-compliance is likely to recur. • Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public. 	<p>and extent of it, will depend on factors such as:</p> <ul style="list-style-type: none"> • The legal and regulatory framework. • The appropriateness and timeliness of the response of management and, where applicable, those charged with governance. • The urgency of the situation. • The involvement of management or those charged with governance in the matter. • The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the general public. 	

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>225.27 Examples of circumstances that may cause the assurance practitioner no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:</p> <ul style="list-style-type: none"> • The assurance practitioner suspects or has evidence of their involvement or intended involvement in any non-compliance. • The assurance practitioner is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorised the reporting of, the matter to an appropriate authority within a reasonable period. 	<p>360.20 A2 Examples of circumstances that might cause the professional accountant <u>assurance practitioner</u> no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:</p> <ul style="list-style-type: none"> • The accountant-assurance <u>practitioner</u> suspects or has evidence of their involvement or intended involvement in any non-compliance. • The accountant-assurance <u>practitioner</u> is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period. 		<p>No equivalent application material included under IESBA other assurance engagement provisions. Identified as “nice to have” for purposes of the compelling reason test.</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>225.28 In determining the need for, and nature and extent of, further action, the assurance practitioner shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the assurance practitioner at the time, would be likely to conclude that the assurance practitioner has acted appropriately in the public interest.</p>	<p>R360.21 The professional accountant <u>assurance practitioner</u> shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the professional accountant <u>assurance practitioner</u> shall take into account whether a reasonable and informed third party would be likely to conclude that the professional accountant <u>assurance practitioner</u> has acted appropriately in the public interest.</p>		<p>The assurance practitioner exercises professional judgement throughout the engagement. ISAE (NZ) requires the assurance practitioner to exercise professional judgement in planning and performing an assurance engagement, including determining the nature, timing and extent of the procedures (paragraph 38).</p> <p>The conceptual framework requires the assurance practitioner to exercise professional judgement, remain alert for new information and to changes in facts and circumstances and to use the reasonable and informed third-party test (R120.5). respon</p> <p>R360.36 requires the assurance practitioner to consider whether further action is needed in the public interest.</p> <p>Accordingly, this requirement is identified as “nice to have” for</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
			purposes of the compelling reason test.
<p>225.29 Further action by the assurance practitioner may include:</p> <ul style="list-style-type: none"> • Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so. • Withdrawing from the engagement and the professional relationship where permitted by law or regulation. 	<p>360.21 A1 Further action that the professional accountant <u>assurance practitioner</u> might take includes:</p> <ul style="list-style-type: none"> • Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so. • Withdrawing from the engagement and the professional relationship where permitted by law or regulation. 	<p>360.36 A2 Further action by the <u>assurance practitioner</u> professional accountant might include:</p> <ul style="list-style-type: none"> • Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so. • Withdrawing from the engagement and the professional relationship where permitted by law or regulation. 	<p>Application material is the same for both audit/review and other assurance.</p>
<p>225.30 Where the assurance practitioner determines that withdrawing from the engagement and the professional relationship would be appropriate, doing so would not be a substitute for taking other actions that may be needed to achieve the assurance practitioner's objectives</p>	<p>360.21 A2 Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the professional accountant's <u>assurance practitioner's</u> objectives under this</p>		<p>No equivalent application material included under IESBA other assurance engagement provisions. Withdrawal is always an option for the practitioner. Accordingly, this is implicit and "nice to have" for</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
under this section. In some cases, however, there may be limitations as to the further actions available to the assurance practitioner and withdrawal may be the only available course of action.	section. In some jurisdictions, however, there might be limitations as to the further actions available to the accountant <u>assurance practitioner</u> . In such circumstances, withdrawal might be the only available course of action.		purposes of the compelling reason test.
225.31 Where the assurance practitioner has withdrawn from the professional relationship pursuant to paragraphs 225.25 and 225.29, the assurance practitioner shall, on request by the proposed successor assurance practitioner, provide all such facts and other information concerning the identified or suspected non-compliance <i>that, in the predecessor assurance practitioner's opinion, the proposed successor assurance practitioner needs to be aware of before deciding whether to accept the audit appointment.</i> The predecessor assurance practitioner shall do so despite paragraph 210.14, unless prohibited by law or regulation. <i>If the proposed successor assurance</i>	R360.22 Where the professional-accountant <u>assurance practitioner</u> has withdrawn from the professional relationship pursuant to paragraphs R360.20 and 360.21 A1, the accountant-assurance practitioner shall, on request by the proposed accountant-assurance practitioner pursuant to paragraph R320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed accountant-assurance practitioner . The predecessor accountant-assurance practitioner shall do so, even in the circumstances addressed in paragraph R320.8(b) where the client fails or refuses to grant the predecessor accountant	R320.8 In the case of an audit or review of financial statements, an assurance practitioner shall request the existing or predecessor assurance practitioner to provide known information regarding any facts or other information of which, in the existing or predecessor assurance practitioner's opinion, the proposed assurance practitioner needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving non-compliance or suspected non-compliance with laws and regulations set out in paragraphs R360.21 and R360.22: (a) If the client consents to the existing or predecessor	Section 320 of the restructured Code addresses communicating with the existing or predecessor assurance practitioner for all assurance engagements. Refer 320.8 Identified as "nice to have" for purposes of the compelling reason test.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p><i>practitioner is unable to communicate with the predecessor assurance practitioner, the proposed successor assurance practitioner shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means, such as through enquiries of third parties or background investigations of management or those charged with governance.</i></p>	<p><u>assurance practitioner</u> permission to discuss the client's affairs with the proposed accountant<u>assurance practitioner</u>, unless prohibited by law or regulation.</p>	<p>assurance practitioner disclosing any such facts or other information, the existing or predecessor assurance practitioner shall provide the information honestly and unambiguously; and</p> <p>(b) If the client fails or refuses to grant the existing or predecessor assurance practitioner permission to discuss the client's affairs with the proposed assurance practitioner, the existing or predecessor assurance practitioner shall disclose this fact to the proposed assurance practitioner, who shall carefully consider such failure or refusal when determining whether to accept the appointment.</p>	
<p>225.31 ...that, in the predecessor assurance practitioner's opinion, the proposed successor assurance practitioner needs to be aware of</p>	<p>360.22 A1 The facts and other information to be provided are those that, in the predecessor accountant's<u>assurance practitioner's</u> opinion, the proposed</p>		<p>No equivalent application material included under IESBA other assurance engagement provisions. Identified as "nice to have" for</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<i>before deciding whether to accept the audit appointment...</i>	accountant <u>assurance practitioner</u> needs to be aware of before deciding whether to accept the audit <u>or review</u> appointment. Section 320 addresses communications from proposed accountants <u>assurance practitioners</u> .		purposes of the compelling reason test.
225.31 <i>...If the proposed successor assurance practitioner is unable to communicate with the predecessor assurance practitioner, the proposed successor assurance practitioner shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means...</i>	R360.23 If the proposed accountant <u>assurance practitioner</u> is unable to communicate with the predecessor accountant <u>assurance practitioner</u> , the proposed accountant <u>assurance practitioner</u> shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.	R320.6 If unable to communicate with the existing or predecessor assurance practitioner, the proposed assurance practitioner shall take other reasonable steps to obtain information about any possible threats.	Repetition of material in section 320. See R320.6
225.31 <i>... such as through enquiries of third parties or background investigations of management or those charged with governance.</i>	360.23 A1 Other means to obtain information about the circumstances of the change of appointment include inquiries of third parties or background investigations of management or those charged with governance.		No equivalent application material included under IESBA other assurance engagement provisions. Identified as “nice to have” for purposes of the compelling reason test.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
225.32 As consideration of the matter may involve complex analysis and judgements, the assurance practitioner may consider consulting internally, obtaining legal advice to understand the assurance practitioner's options and the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.	360.24 A1 As assessment of the matter might involve complex analysis and judgments, the <u>professional accountant assurance practitioner</u> might consider: <ul style="list-style-type: none"> Consulting internally. Obtaining legal advice to understand the <u>accountant's assurance practitioner's</u> options and the professional or legal implications of taking any particular course of action. Consulting on a confidential basis with a regulatory or professional body. 	360.39 A1 The <u>professional accountant assurance practitioner</u> might consider: <ul style="list-style-type: none"> Consulting internally. Obtaining legal advice to understand the professional or legal implications of taking any particular course of action. Consulting on a confidential basis with a regulatory or professional body. 	Similar guidance
Determining Whether to Disclose the Matter to an Appropriate Authority	Determining Whether to Disclose the Matter to an Appropriate Authority		
225.33 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an	360.25 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an		No equivalent application material included under IESBA other assurance engagement provisions. Identified as "nice to have" for

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
appropriate authority to cause the matter to be investigated and action to be taken in the public interest.	appropriate authority to cause the matter to be investigated and action to be taken in the public interest.		purposes of the compelling reason test.
<p>225.34 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or may be caused by the matter to investors, creditors, employees or the general public. For example, the assurance practitioner may determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:</p> <ul style="list-style-type: none"> • The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts). • The entity is regulated and the matter is of such significance as 	<p>360.25 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the professional accountant <u>assurance practitioner</u> might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:</p> <ul style="list-style-type: none"> • The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts). • The entity is regulated and the matter is of such significance as 		No equivalent application material included under IESBA other assurance engagement provisions. Identified as “nice to have” for purposes of the compelling reason test.

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>to threaten its license to operate.</p> <ul style="list-style-type: none"> • The entity is listed on a securities exchange and the matter could result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets. • Products that are harmful to public health or safety would likely be sold by the entity. • The entity is promoting a scheme to its clients to assist them in evading taxes. 	<p>to threaten its license to operate.</p> <ul style="list-style-type: none"> • The entity is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets. • It is likely that the entity would sell products that are harmful to public health or safety. • The entity is promoting a scheme to its clients to assist them in evading taxes. 		
<p>225.34 The determination of whether to make such a disclosure will also depend on external factors such as:</p> <ul style="list-style-type: none"> • Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will 	<p>360.25 A3 The determination of whether to make such a disclosure will also depend on external factors such as:</p> <ul style="list-style-type: none"> • Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will 	<p>360.36 A3 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:</p> <ul style="list-style-type: none"> • Whether doing so would be contrary to law or regulation. • Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor 	<p>Similar guidance</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>depend on the nature of the matter, for example, a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.</p> <ul style="list-style-type: none"> • Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation. • Whether there are actual or potential threats to the physical safety of the assurance practitioner or other individuals. • Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an on-going investigation into the non-compliance or suspected non-compliance. 	<p>depend on the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.</p> <ul style="list-style-type: none"> • Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation. • Whether there are actual or potential threats to the physical safety of the professional accountant assurance practitioner or other individuals. 	<p>in an ongoing investigation into the non-compliance or suspected non-compliance.</p> <ul style="list-style-type: none"> • Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action. 	

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<ul style="list-style-type: none"> Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action. 			
<p>225.35 If the assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions. The assurance practitioner shall also consider whether it is appropriate to inform the client of the assurance practitioner's intentions before disclosing the matter.</p>	<p>R360.26 If the professional accountant<u>assurance practitioner</u> determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant<u>assurance practitioner</u> shall act in good faith and exercise caution when making statements and assertions. The accountant<u>assurance practitioner</u> shall also consider whether it is appropriate to inform the client of the accountant's<u>assurance practitioner's</u> intentions before disclosing the matter.</p>	<p>R360.37 If the professional accountant<u>assurance practitioner</u> determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code. When making such disclosure, the accountant<u>assurance practitioner</u> shall act in good faith and exercise caution when making statements and assertions. The accountant<u>assurance practitioner</u> shall also consider whether it is appropriate to inform the client of the accountant's<u>assurance practitioner's</u> intentions before disclosing the matter.</p>	<p>Same requirement</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
	<i>Imminent Breach</i>	<i>Imminent Breach</i>	
<p>225.36 In exceptional circumstances, the assurance practitioner may become aware of actual or intended conduct that the assurance practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the assurance practitioner shall exercise professional judgement and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a</p>	<p>R360.27 In exceptional circumstances, the professional accountant <u>assurance practitioner</u> might become aware of actual or intended conduct that the accountant-assurance practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the accountant-assurance practitioner shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that</p>	<p>R360.38 In exceptional circumstances, the professional accountant <u>assurance practitioner</u> might become aware of actual or intended conduct that the accountant-assurance practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the accountant-assurance practitioner shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If</p>	<p>Similar requirement</p>

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
breach of the duty of confidentiality under Section 140 of this Code.	disclosure is permitted pursuant to paragraph R114.1(d) of the Code.	disclosure is made, that disclosure is permitted pursuant to paragraph R114.1(d) of the Code.	
<i>Documentation</i>	<i>Documentation</i>	<i>Documentation</i>	
<p>225.37 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the assurance practitioner shall, in addition to complying with the documentation requirements under applicable auditing or assurance standards, document:</p> <ul style="list-style-type: none"> How management and, where applicable, those charged with governance have responded to the matter. The courses of action the assurance practitioner considered, the judgments made and the decisions that 	<p>R360.28 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant <u>assurance practitioner</u> shall document:</p> <ul style="list-style-type: none"> How management and, where applicable, those charged with governance have responded to the matter. The courses of action the accountant-assurance practitioner considered, the judgments made and the decisions that were taken, 	<p>360.40 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant <u>assurance practitioner</u> is encouraged to document:</p> <ul style="list-style-type: none"> The matter. The results of discussion with management and, where applicable, those charged with governance and other parties. How management and, where applicable, those charged with 	<p>For other assurance engagements, ISAE (NZ) 3000 (Revised) and subject matter specific ISAEs (NZ) and SAEs establish the documentation requirements.²</p> <p>360.40 A1 guides the assurance practitioner in determining the matters to document, supporting the requirement in ISAE (NZ) 3000 (Revised), but in not prescribing specific matters to be documented recognises the differing nature of other assurance engagements.</p> <p>The IESBA has taken a proportionate approach to documentation. The encouragement for the assurance</p>

² ISAE (NZ) 3000 (Revised), paragraph 79, The assurance practitioner shall prepare on a timely basis documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable an experience practitioner, having no previous connection with the engagement to understand,...(c) the significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions. (paragraph 79).

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>were taken, having regard to the reasonable and informed third party perspective.</p> <ul style="list-style-type: none"> How the assurance practitioner is satisfied that the assurance practitioner has fulfilled the responsibility set out in paragraph 225.25. 	<p>having regard to the reasonable and informed third party test.</p> <ul style="list-style-type: none"> How the accountant-assurance practitioner is satisfied that the accountant-assurance practitioner has fulfilled the responsibility set out in paragraph R360.20. 	<p>governance have responded to the matter.</p> <ul style="list-style-type: none"> The courses of action the accountant-assurance practitioner considered, the judgments made and the decisions that were taken. How the accountant-assurance practitioner is satisfied that the accountant-assurance practitioner has fulfilled the responsibility set out in paragraph R360.36. 	<p>practitioner to document recognises that practitioners performing other assurance engagements are not subject to the same extent of regulatory oversight as auditors.³</p> <p>The Subcommittee is of the view that the matters identified would ordinarily be documented in accordance with ISAE (NZ) 3000 (Revised). Accordingly, the Subcommittee is of the view that the compelling reason test has not been met.</p>
<p>225.38 International Standards on Auditing (New Zealand) (ISAs (NZ)), for example, require an assurance practitioner performing an audit of financial statements to:</p> <ul style="list-style-type: none"> Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and 	<p>360.28 A1 This documentation is in addition to complying with the documentation requirements under applicable auditing and assurance standards. ISAs, for example, require a professional accountantassurance practitioner performing an audit of financial statements to:</p>		<p>For other assurance engagements, ISAE (NZ) 3000 (revised) and subject matter specific ISAEs (NZ) and SAEs establish the documentation requirements.</p> <p>360.28 A1 uses ISAs as an example.</p>

³ IESBA Basis for Conclusions, *Responding to Non-Compliance with Laws and Regulations*, paragraph 133

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>significant professional judgements made in reaching those conclusions;</p> <ul style="list-style-type: none"> Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity. 	<ul style="list-style-type: none"> Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgements made in reaching those conclusions; Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity. 		

Extant PES 1 (Revised) Section 225	Restructured IESBA Code Section 360 (Audit/Review) <i>(Amended in NZ to include review engagements)</i>	Restructured IESBA Code Section 360 (Other Assurance)	COMMENTS
<p>NZ225.38.1 International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ)) and International Standard on Review Engagements (New Zealand) (ISRE (NZ)) require an assurance practitioner performing an assurance engagement to:</p> <ul style="list-style-type: none"> • Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions; • Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. 			<p>For other assurance engagements, ISAE (NZ) 3000 (revised) and subject matter specific ISAEs (NZ) and SAEs establish the documentation requirements.</p>

Compelling Reason Test:

Compelling reason tests are included in this paper for the following modifications:

#	Modification	Additional materials
1	PIE requirements included in section 290 extended to section 291 (including long association)	Comparison of PIE requirements (refer attachment 6)
2.	Temporary staff assignments	N/A
3.	Multiple threats to independence	N/A

Modification 1: PIE Requirements included in section 290 extended to section 291 (including long association).

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)

Modification

PES 1 (Revised) extends the more restrictive PIE requirements included in section 290 to section 291 relating to independence in other assurance engagements.

The following paragraphs are added:

NZ291.3.1-NZ 291.3.2 scoping paragraphs

NZ291.3.1 Section 291 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that have public accountability, are deemed to have public accountability or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:

Any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1¹.

NZ291.3.2 Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as if they were public interest entities because they have a large number and wide range of stakeholders or represent a higher level of risk. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;
- Size; and
- Number of employees

NZ291.27.1 certain exceptions permitted when restricting use and distribution

NZ291.27.1 When the conditions set out in paragraphs 291.21 and 291.22 are met, it is not necessary to apply the additional public interest entity requirements in paragraphs 291.112 to 291.157 that apply to assurance engagements for public interest entities.

Paragraphs NZ291.3.1-NZ291.3.2 and NZ291.27.1 are necessary only to the extent that any of the following NZ PIE paragraphs are retained.

NZ291.147.1 prohibition on valuation services

¹ XRB A1 Application of the Accounting Standards Framework.

NZ291.147.1 A firm shall not provide valuation services to an assurance client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the subject matter information of an assurance engagement.

NZ291.147.2 prohibition on certain IT services

NZ291.147.2 In the case of an assurance client that is a public interest entity, a firm shall not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal control over the subject matter of the engagement or (b) generate information that is significant to the subject matter information on which the firm will express an opinion.

NZ291.147.3 prohibition on certain recruiting services

NZ291.147.3 A firm shall not provide the following recruiting services to an assurance client that is a public interest entity with respect to a director or officer of the entity or senior management in a position to exert significant influence over the subject matter or the preparation of the subject matter information on which the firm will express an opinion:

- Searching for or seeking out candidates for such positions; and
- Undertaking reference checks of prospective candidates for such positions.

NZ291.149.1 relative fees

NZ291.149.1 Where an assurance client is a public interest entity and for two consecutive years the total fees from the client (subject to the considerations in paragraph 291.3) represent more than 15% of the total fees received by the firm the firm shall disclose to those charged with governance of the assurance client the fact that the total of such fees represents more than 15% of the total fees received by the firm and discuss which of the safeguards below it will apply to reduce the threat to an acceptable level and apply the selected safeguard:

- Prior to the issuance of the second year's opinion another assurance practitioner who is not a member of the firm expressing the conclusion performs an engagement quality control review of that engagement ("a pre-issuance review"); or
- After the second year's opinion has been issued and before the issuance of the conclusion on the third year's opinion another assurance practitioner who is not a member of the firm performs a review of the second year's engagement that is equivalent to an engagement quality control review ("a post-issuance review").

When the total fees significantly exceed 15% the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and therefore a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Thereafter when the fees continue to exceed 15% each year the disclosure to and discussion with those charged with governance shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15% the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and therefore a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

NZ291.141.1-NZ291.141.15 (approved by the Board, February 2018)

NZ291.141.1 In respect of a recurring assurance engagement for a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the "time on period"):

- (a) The engagement partner;
- (b) The individual appointed as responsible for the engagement quality control review; or
- (c) Any other key assurance partner role.

After the time-on period, the individual shall serve a "cooling-off" period in accordance with the provisions in paragraphs NZ291.141.3 – NZ291.141.10.

NZ291.141.2 In calculating the time-on period, the count of years cannot be restarted unless the individual ceases to act in any one of the above roles for a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs NZ291.141.3 to NZ291.141.5 as applicable to the role in which the individual served in the year immediately before ceasing such involvement. For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit or review engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph NZ291.141.6.

NZ291.141.3 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

NZ291.141.4 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

NZ291.141.5 If the individual has acted in any other capacity as a key assurance partner for seven cumulative years, the cooling-off period shall be two consecutive years.

NZ291.141.6 If the individual acted in a combination of key assurance partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

NZ291.141.7 If the individual acted in a combination of key assurance partner roles and served as the key assurance partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall, subject to paragraph NZ291.141.8(a), be three consecutive years.

NZ291.141.8 If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more cumulative years during the time-on period, the cooling-off period shall be:

- (a) Five consecutive years where the individual has been the engagement partner for three or more years; or
- (b) Three consecutive years in the case of any other combination.

NZ291.141.9 If the individual acted in any other combination of key assurance partner roles, the cooling-off period shall be two consecutive years.

NZ291.141.10 In determining the number of years that an individual has been a key assurance partner under paragraphs NZ291.141.1 to NZ291.141.2, the length of the relationship shall, where relevant, include time while the individual was a key assurance partner on that engagement at a prior firm.

NZ291.141.11 For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be a member of the engagement team or provide quality control for the assurance engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the assurance engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the engagement);
- (c) Be responsible for leading or coordinating the firm's professional services to the assurance client or overseeing the firm's relationship with the assurance client; or
- (d) Undertake any other role or activity not referred to above with respect to the assurance client, including the provision of non-assurance services, that would result in the individual:
 - i. Having significant or frequent interaction with senior management or those charged with governance; or
 - ii. Exerting directly influence on the outcome of the engagement.

The provisions of this paragraph are not intended to prevent the individual from assuming a leadership role in the firm, such as that of the Senior or Managing Partner.

NZ291.141.12 There may be situations where a firm, based on an evaluation of threats in accordance with the general provisions above, concludes that it is not appropriate for an individual who is a key assurance partner to continue in that role even though the length of time served as a key assurance partner is less than seven years. In evaluating the threats, particular consideration shall be given to the roles undertaken and the length of the individual's association with the assurance engagement prior to an individual becoming a key assurance partner.

NZ291.141.13 Despite paragraphs NZ291.141.1-NZ291.141.9, key assurance partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key assurance partner as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key assurance partner may remain in that role on the assurance team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. The firm shall discuss with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

NZ291.141.14 When an assurance client becomes a public interest entity, the length of time the individual has served the assurance client as a key assurance partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the assurance client as a key assurance partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the assurance client as a key assurance partner for a period of six or more cumulative years when the client becomes a public interest entity, the partner may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

NZ291.141.15 When a firm has only a few people with the necessary knowledge and experience to serve as a key assurance partner on the assurance engagement of a public interest entity, rotation of key assurance partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key assurance partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified other requirements which are to be applied, such as the length of time that the key assurance partner may be exempted from rotation or a regular independent external review.

Rationale for the modification

The international standard is not consistent with NZ regulatory arrangements.

n/a

OR

The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ

The NZAuASB is of the view that the threats to independence do not differ whether the subject matter of the engagement is financial statements or another subject matter. The NZAuASB is of the view that these prohibitions are appropriate for other assurance clients, if they are public interest entities and that prohibiting such services in these circumstances is appropriate to maintaining independence, given the high level of interest in a public interest entity.

A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ.	n/a
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB	<p>Based on a more informed understanding of the other assurance market, the Subcommittee is of the view that the NZAuASB's previously expressed view that threats to independence do not differ whether the subject matter of the engagement is financial statements or another subject matter may no longer be conclusive.</p> <p>The threats to independence in other assurance engagements, will vary depending on not only the subject matter but, for example, the purpose of the assurance; what is important to the users. Accordingly, the principles and practices considered appropriate for financial statement assurance may not be the most appropriate for other assurance engagements.</p> <p>If a firm performs both an audit or review engagement and an assurance engagement for the same client, the requirements in Part 4A (previously section 290) continue to apply².</p>
2. The proposed modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	<p>Applying the same requirements across all assurance services is clear and promotes consistent application across all services. For those firms that perform only other assurance engagements</p> <p>However, establishing rules may distract the assurance practitioner from complying with the principles of the standard. In this regard the Subcommittee prefers the principles based approach of the conceptual framework that applies to all types of assurance engagement.</p>

² Restructured International Code, paragraph 900.13

<p>3. The proposed modification will promote significant improvement in audit quality in New Zealand</p> <p><i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i></p>	<p>The mandate of the NZAuASB is to set auditing, assurance and ethical standards for assurance practitioners undertaking statutory assurance engagements. ISAE (NZ) 3000 (Revised) applies to assurance engagements other than audits or reviews of historical financial information and includes assurance over non-financial information</p> <p>In revising the IESBA Code and establishing the PIE requirements, the IESBA was responding to specific failings in the audit market. There is no evidence to support that there were the same failings in the other assurance market.</p> <p>The IESBA also noted that the requirements for other assurance engagements are not as specific because of the wide range of possible subject matters and subject matter information.</p> <p>The specific prohibitions identified are applicable to financial statement audits. There is no evidence to support that these same prohibitions are important to other types of assurance engagement, for example, assurance over a greenhouse gas statement which could be provided for a range of reasons not associated with financial statements, e.g., a marketing claim or as a basis for an internal management process, e.g., a business case.</p> <p>To understand what is important and what will affect independence in other assurance engagements, we first have to understand the purpose of the other assurance engagement. Therefore, the Subcommittee is of the view that for purposes of Part 4B the identified prohibitions do not necessarily promote significant improvement in audit quality. Rather, in accordance with the conceptual framework, the assurance practitioner needs to identify, evaluate and address threats to independence.</p> <p>Reference is often made to the stricter requirements of section 290. The Subcommittee notes that under both section 290 and 291, the assurance practitioner is required to be independent. Under both sections 290 and 291, the assurance practitioner applies the threats and safeguards approach in considering their independence. The stricter requirements refer to the prohibitions (including rotation requirements) that address the threats to independence (self-review, familiarity) and, in particular, the appearance of a lack of independence. With regard to other assurance engagements, these same threats are addressed by the conceptual framework – identifying, evaluating and addressing threats.</p> <p>The Subcommittee is concerned that the prohibitions do not reflect the matters that are necessarily of importance to the assurance practitioner and users of the assurance</p>
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	report in the other assurance space, and therefore has concluded that the compelling reason test has not been met with regard to promoting significant improvement in assurance quality.
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit analysis has been performed, however, the additional requirements in relation to prohibitions are not expected to significantly increase costs. There could be significant additional costs to both client and assurance practitioner in applying the long association provisions. The assurance practitioner is required to be independent and to apply the conceptual framework to identify, evaluate and address the threats to independence.
5. The modification does not conflict with or result in lesser requirements than the international standard.	The prohibitions are consistent with section 290 of the standard.
6. The modification overall does not result in the standard being overly complex and confusing.	The modification does not result in the standard being overly complex and confusing. The assurance practitioner is required to comply with the conceptual framework to identify, evaluate and address threats to the independence. Rather the Subcommittee is concerned that the modifications may not be relevant to the subject matter and consequently believes that the threats and safeguards approach is more appropriate.
7. The modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.	The modifications place more onerous requirements on a practitioner in New Zealand than necessary to meet the intent of the International Code. The specific prohibitions may not be the matters that are of most importance in the specific assurance engagement and may distract the assurance practitioner from consideration of more relevant matters.
Conclusion	For the reasons noted above, the Subcommittee is of the view that the compelling reason test has not been met.

Modification 2: Temporary Staff Assignments

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>Modification</p> <p>Lending staff may create a self-review threat if that staff member is later involved in providing assurance over that subject matter or that subject matter information. This guidance emphasizes that a self-review threat may arise, regardless of whether the subject matter of the engagement is financial statements or not. It is not intended to be a prohibition and will not apply where the role is not related to the subject matter of the assurance engagement.</p> <p>The following paragraph included in extant PES 1 (Revised) will be included in the restructured Code.</p> <p>NZ291.129.1 The lending of staff by a firm to an assurance client may create a self-review threat. This would be the case when, for example, a member of the assurance team has to evaluate elements of the subject matter information the member of the assurance team had prepared while with the client. Such assistance may be given, but the firm's personnel shall not be involved in:</p> <ul style="list-style-type: none"> • Providing non-assurance services that would not be permitted under this section; or • Assuming management responsibilities in a position which would give the loaned staff significant influence over the subject matter on which the firm will express an opinion. <p>In all circumstances, the assurance client shall be responsible for directing and supervising the activities of the loaned staff.</p> <p>The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Conducting an additional review of the work performed by the loaned staff; • Not giving the loaned staff responsibility for any function or activity that the staff performed during the temporary staff assignment; or • Not including the loaned staff as a member of the assurance team. 	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	This guidance, which is expanded guidance on the threats and safeguards approach, is as relevant to other assurance engagements as it is to audits and reviews and therefore the addition promotes audit quality. The threats to independence do not differ when the subject matter of the engagements are financial statements or another subject matter.
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	

<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ.	n/a
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB	<p>The view of the Board previously was that the additional guidance is equally applicable to other assurance engagements as it is to audits and reviews.</p> <p>The threats to independence in other assurance engagements, will vary depending on not only the subject matter but, for example, the purpose of the assurance; what is important to the users. Accordingly, the principles and practices considered appropriate for financial statement assurance may not be the most appropriate for other assurance engagements.</p> <p>The Subcommittee is of the view that application of the conceptual framework to identify, evaluated and address threats is appropriate and principles based.</p>
2. The proposed modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	The modification provides additional guidance and promotes consistency.
3. The proposed modification will promote significant improvement in audit/assurance quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	<p>This guidance emphasizes that a self-review threat may arise, regardless of whether the subject matter of the engagement is financial statements or not.</p> <p>It is not intended to be a prohibition and will not apply where the role is not related to the subject matter of the assurance engagement. Under the conceptual framework, when a threat to the fundamental principles is identified, the assurance practitioner is required to evaluate the threat and address the threat either by eliminating it or</p>

	<p>reducing it to an acceptable level. Accordingly, including this requirement in the Code will have little effect on audit/assurance quality as it is intended as guidance and is consistent with the conceptual framework.</p> <p>Accordingly, the Subcommittee is of the view that the modification does not promote significant improvement in audit quality.</p>
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit analysis has been performed.
5. The proposed modification does not conflict with or result in lesser requirements than the international standard.	No
6. The proposed modification overall does not result in the standard being overly complex and confusing.	The proposed modification reiterates requirements that are included in the Code.
7. The proposed modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.	The modification does not place more onerous requirements on the practitioner in New Zealand than is necessary to meet the intent of the International Code. Rather the modification reiterates requirements that are already included in the Code. The Subcommittee is of the view that applying the conceptual framework to identify, evaluate and address threats will achieve the same result.
Conclusion	Compelling reason test not met. Under the conceptual framework, there is unlikely to be any significant difference in the identification, evaluation or addressing of threats.

Modification 3: Multiple threats to independence

Modification to the International Code of Ethics for Professional Accountants (including International Independence Requirements)	
<p>The following two paragraphs are added to the Code to clarify the need for the assurance practitioner to evaluate multiple threats to independence, which individually may not be significant, in aggregate.</p> <p>NZ290.11.1 Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.</p> <p>NZ291.10.1 Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.</p> <p>This change is proposed in line with the NZAuASB's harmonisation policy with the Australian Code.</p>	
Rationale for the modification	
The international standard is not consistent with NZ regulatory arrangements.	n/a
OR	
The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ	<p>The discussion on the conceptual framework at the start of section 290 has been relocated in the restructured International Code to Section 120 on the overall conceptual framework elements. The restructured section includes a reference to multiple threats³ but it is not as detailed as in the extant NZ paragraphs and is in a different section to the Independence Standards. Therefore, we propose to include the extant NZ paragraphs also in Part 4A and Part 4B (previously sections 290 and 291).</p> <p>This paragraph is based on a similar addition proposed in the Australian Code</p>
A. Consideration of Compelling reason criteria where the international standard is not consistent with New Zealand regulatory requirements.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the proposed modification meets the criteria</u>
The standard can be modified so as to result in a standard the application of which results in effective and efficient	n/a

³ Paragraph 120.8 A1 of the International Code states, "The consideration of qualitative as well as quantitative factors is relevant in the assurance practitioner's evaluation of threats, as is the combined effect of multiple threats, if applicable."

compliance with the legal framework in NZ.	
The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.	n/a
B. Consideration of Compelling reason criteria where the international standard does not reflect principles and practices that are considered appropriate in New Zealand.	
<u>Compelling reason criteria as per agreed Principles of Convergence</u>	<u>Consideration whether the modification meets the criteria</u>
1. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB	The modification clarifies the intent of the International Code.
2. The proposed modification results in a standard that is clear and promotes consistent application by all practitioners. <i>(For example, excluding options not relevant in NZ and Australia)</i>	The restructured International Code, paragraph 120.8 A1 clarifies that the combined effect of multiple threats is relevant. However, this discussion is included in the conceptual framework and not the independence standards, Part 4A and Part 4B (previously sections 290 and 291), and is less detailed than the extant NZ paragraph.
3. The proposed modification will promote significant improvement in audit quality in New Zealand <i>(With improvement in audit quality being linked to one or more of the Applicable elements in the IAASB's Framework for Audit Quality)</i>	The restructured International Code, paragraph 120.8 A1 clarifies that the combined effect of multiple threats is relevant. However, its placement in the conceptual framework is geographically disjointed from its application which is in the independence standards, Part 4A and Part 4B (previously sections 290 and 291).
4. The relative benefits of modification outweigh the cost (with cost being compliance cost and the cost of differing from the international standard, and benefit relating to audit quality).	No cost/benefit. Clarification of the intent of the Code.
5. The proposed modification does not conflict with or result in lesser requirements than the international standard.	No. Clarification of the intent of the Code.
6. The proposed modification overall does not result in the	No. Adds clarity to the Code.

standard being overly complex and confusing.	
7. The proposed modification does not inadvertently change the meaning of the international wording by placing more onerous requirements on a practitioner in NZ than necessary to meet the intent of the international standard.	No. Modification is consistent with the NZAuASB harmonisation policy with the Australian Code.
Conclusion	Compelling reason test met. The intent of the Code is enhanced by the additional paragraphs.

Assessment of the NZ PIE requirements in extant PES 1 (Revised), section 291

1. The following analysis looks at each of the PIE compelling reason changes made to extant PES 1 (Revised). The table below provides the initial assessment for the NZ specific paragraph and the Subcommittee's reassessment.
2. The Subcommittee notes that the IESBA separated the independence provisions for audit and review engagements and other assurance engagements in its revised Code issued in July 2009, in response to the loss in credibility in aspects of the financial reporting framework as a result of several high profile corporate failures. At the same time, the IESBA extended the application of certain independence provisions that previously applied only to the audits of listed entities to apply more broadly to audit or review engagements of public interest entities.
3. For purposes of this analysis:
 - section 290 of PES 1 (Revised) = Part 4A of the restructured IESBA Code
 - section 291 of PES 1 (Revised) = Part 4B of the restructured IESBA Code.
4. The Subcommittee has analysed these key differences to determine whether the compelling reasons to amend section 291 of extant PES 1 (Revised) to include the additional PIE requirements continues to be met.
5. Examples of engagements that are covered by Part 4B (previously section 291) include:
 - Audit of specific elements, accounts or items of a financial statement
 - Any direct reporting engagement: audit of effectiveness of internal controls, audit of controls at a service organisation
 - Sustainability reports and EER
 - Assurance over environmental performance for example, Greenhouse gas statements, GHG emissions, assurance on an emission calculation or emission profile, environmental performance of a product

For an assurance engagement where the subject matter is any type of financial information included in an offer document, the independence requirements of Part 4A (previously section 290) apply. Similarly, the assurance practitioner will need to consider the provisions of Part 4A if a non-audit assurance engagement is performed for an audit or review client.

Overview and assessment of NZ PIE requirements in extant PES 1 (Revised) for other assurance engagements

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
Public interest entity requirements	<p>NZ291.3.1 Section 291 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that have public accountability, are deemed to have public accountability or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:</p> <ul style="list-style-type: none"> Any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1¹. 		<p>This paragraph has been added to section 291 as the NZAuASB has replicated certain of the public interest entity requirements in section 291 as outlined below.</p> <p>Whether this paragraph is retained will depend on the Board's decision whether the compelling reason test has been met and therefore whether to retain the additional PIE requirements in Part 4B.</p> <p>Wording to be updated to reflect the revised definition of PIE, if retained.</p>
	<p>NZ291.3.2 Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as if they were public interest entities because they have a large number and wide range of stakeholders or represent a higher level of risk. Factors to be considered include:</p> <ul style="list-style-type: none"> The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds; Size; and Number of employees 		<p>This paragraph has been added to section 291 as the NZAuASB has replicated certain of the public interest entity requirements in section 291 as outlined below.</p> <p>Whether this paragraph is retained will depend on the Board's decision whether the compelling reason test has been met and therefore whether to retain the additional PIE requirements in Part 4B.</p>
	NZ291.27.1 When the conditions set out in paragraphs 291.21		This exception has been added to

¹ XRB A1 *Application of the Accounting Standards Framework*.

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	and 291.22 are met, it is not necessary to apply the additional public interest entity requirements in paragraphs 291.112 to 291.157 that apply to assurance engagements for public interest entities.		<p>section 291 as the NZAuASB has replicated certain of the public interest entity requirements in section 291 as outlined below.</p> <p>Whether this paragraph is retained will depend on the Board's decision whether the compelling reason test has been met and therefore whether to retain the additional PIE requirements in Part 4B.</p>
Valuation services	NZ291.147.1 A firm shall not provide valuation services to an assurance client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the subject matter information of an assurance engagement.	<p>Staff have proposed to extend these requirements to all entities in s290. The self-review threat would be the same for all assurance engagements and staff believe that this gap should be addressed in s291.</p> <p>Staff do not see onerous costs involved by adding this prohibition to s291.</p> <p>Recommendation: Add to s291.</p>	<p>[IESBA restructured Code R603.5]</p> <p>This prohibition may be more likely to be applicable in a financial statement audit/review and therefore is appropriate to include in section 290. Inclusion of this specific prohibition in section 291 (new Part 4B) does not reflect the wide range of possible subject matters and subject matter information likely in an other assurance engagement.</p> <p>The market for other assurance is still developing. As the market matures it may become appropriate for more detailed guidance to be established.</p> <p>The Subcommittee is of the view that applying the conceptual framework to identify, evaluate and address the threats is an appropriate response.</p> <p>Specifying certain prohibitions that may not be significant to the assurance practitioner's consideration for a</p>

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
			particular engagement may detract the assurance practitioner from considering other situations that may be more relevant.
IT systems services	NZ291.147.2 In the case of an assurance client that is a public interest entity, a firm shall not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal control over the subject matter of the engagement or (b) generate information that is significant to the subject matter information on which the firm will express an opinion.	<p>The risks would be the same for all assurance engagements and staff believe that the gap should be addressed in s291.</p> <p>Recommendation: Add to s291.</p>	<p>[IESBA restructured Code R606.5]</p> <p>This prohibition is more likely to be applicable in a financial statement audit/review and therefore is appropriate to include in section 290. Inclusion of this specific prohibition in section 291 (new Part 4B) does not reflect the wide range of possible subject matters and subject matter information likely in an other assurance engagement.</p> <p>The market for other assurance is still developing. As the market matures it may become appropriate for more detailed guidance to be established.</p> <p>The Subcommittee is of the view that applying the conceptual framework to identify, evaluate and address the threats is an appropriate response.</p> <p>Specifying certain prohibitions that may not be significant to the assurance practitioner's consideration for a particular engagement may detract the assurance practitioner from considering other situations that may be more relevant.</p>

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
Recruiting services	<p>NZ291.147.3 A firm shall not provide the following recruiting services to an assurance client that is a public interest entity with respect to a director or officer of the entity or senior management in a position to exert significant influence over the subject matter or the preparation of the subject matter information on which the firm will express an opinion:</p> <ul style="list-style-type: none"> • Searching for or seeking out candidates for such positions; and • Undertaking reference checks of prospective candidates for such positions. 	<p>If the firm has played a significant role in recruiting the client's employee in a position to exert influence over the preparation of the subject matter on which the firm is to provide an opinion, the same risk exists for other assurance engagements. There is a gap in s291 and staff recommend that this should be filled.</p> <p>Recommendation: Add to s291</p>	<p>[IESBA restructured Code R609.7]</p> <p>This prohibition is more likely to be applicable in a financial statement audit/review and therefore is appropriate to include in section 290. Inclusion of this specific prohibition does not reflect the wide range of possible subject matters and subject matter information likely in an other assurance engagement.</p> <p>The market for other assurance is still developing. As the market matures it may become appropriate for more detailed guidance to be established.</p> <p>The Subcommittee is of the view that applying the conceptual framework to identify, evaluate and address the threats is an appropriate response.</p> <p>Specifying certain prohibitions that may not be significant to the assurance practitioner's consideration for a particular engagement may detract the assurance practitioner from considering other situations that may be more relevant.</p> <p>[Note to the Board: this particular provision is no longer applicable only to PIEs in the IESBA restructured Code. As such, does the Board still believe that it is a compelling reason change?]</p>

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
Fees – relative size	<p>NZ291.149.1 Where an assurance client is a public interest entity and for two consecutive years the total fees from the client (subject to the considerations in paragraph 291.3) represent more than 15% of the total fees received by the firm the firm shall disclose to those charged with governance of the assurance client the fact that the total of such fees represents more than 15% of the total fees received by the firm and discuss which of the safeguards below it will apply to reduce the threat to an acceptable level and apply the selected safeguard:</p> <ul style="list-style-type: none"> • Prior to the issuance of the second year's opinion another assurance practitioner who is not a member of the firm expressing the conclusion performs an engagement quality control review of that engagement ("a pre-issuance review"); or • After the second year's opinion has been issued and before the issuance of the conclusion on the third year's opinion another assurance practitioner who is not a member of the firm performs a review of the second year's engagement that is equivalent to an engagement quality control review ("a post-issuance review"). <p>When the total fees significantly exceed 15% the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and therefore a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.</p> <p>Thereafter when the fees continue to exceed 15% each year the disclosure to and discussion with those charged with governance shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15% the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable</p>	<p>There is a gap in s291. This is a risk that applies equally to all types of assurance engagements. In practical terms however, staff believe that all such clients will be audit clients of the firm too, but consider that the risk should be covered in s291.</p> <p>Recommendation: Add to s291</p>	<p>[IESBA restructured Code R410.4]</p> <p>The initial assessment notes there is likely to be little impact from including this provision as clients are likely to be audit clients of the firm, in which case Part 4A will apply.</p> <p>In compliance with the Code, the practitioner would apply the conceptual framework. To the extent that fees from one client is identified as a threat, the assurance practitioner is required to evaluate that threat and address the threat by eliminating or reducing it to an acceptable level.</p> <p>The Subcommittee is of the view that such a requirement is unlikely to lead to a significant improvement in audit quality (as the conceptual framework applies) and therefore the compelling reason test has not been met.</p>

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	level and therefore a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.		
Long association (PIE)	<p>NZ291.141.1 In respect of a recurring assurance engagement for a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time on period”):</p> <ul style="list-style-type: none"> (a) The engagement partner; (b) The individual appointed as responsible for the engagement quality control review; or (c) Any other key assurance partner role. <p>After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs NZ291.141.3 – NZ291.141.10.</p>	<p>If the firm has been providing this service for 7 consecutive years, the familiarity threat would be equally relevant in other assurance engagements.</p> <p>Recommendation: Add to s291</p>	<p>IESBA restructured Code section 540]</p> <p>In line with its previous view that the threats to independence do not differ whether the subject matter of the engagement is financial statements or another subject matter, the Board determined that the revised PIE long association provisions for audit and review engagements should also be applicable to other assurance engagements. The final approved long association provisions are reflected in the column “extant PES 1 (Revised)”.</p> <p>At the time of approving these amendments, the Board did not reconsider whether those compelling reasons are still met.</p> <p>The basis for conclusions notes that while stakeholders agreed that conceptually the independence requirements should be the same for all assurance engagements, some questioned whether the compelling reason test is still met, given the impact of the long association changes, and the majority were opposed to applying those changes across the board.</p> <p>As noted in the introductory section, the</p>
	<p>NZ291.141.2 In calculating the time-on period, the count of years cannot be restarted unless the individual ceases to act in any one of the above roles for a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs NZ291.141.3 to NZ291.141.5 as applicable to the role in which the individual served in the year immediately before ceasing such involvement. For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit or review engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph NZ291.141.6.</p>		
	<p>NZ291.141.3 If the individual acted as the engagement</p>		

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	partner for seven cumulative years, the cooling-off period shall be five consecutive years.		<p>stricter independence requirements were introduced to the International Code by the IESBA in response to the loss in credibility of financial statements due to several high profile corporate/audit failures. The subcommittee notes that such failures related to audits of public entities. There is no evidence to suggest that the same failings existed in other assurance engagements.</p> <p>The familiarity threat or self-interest threat that is created by long service with a client is addressed by the conceptual framework. The assurance practitioner is required to identify, evaluate and address the threat. To the extent that threat can only be addressed by rotating the assurance practitioner off the engagement team, the firm is required to determine the appropriate time off period, which is required to be of sufficient duration to address the familiarity or self-interest threat.</p> <p>Given the following:</p> <ul style="list-style-type: none"> • The developing nature of the other assurance market; • The wide range of possible subject matters and subject matter information; and • The possibility that the PIE will also be an audit/review client,
	NZ291.141.4 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.		
	NZ291.141.5 If the individual has acted in any other capacity as a key assurance partner for seven cumulative years, the cooling-off period shall be two consecutive years.		
	NZ291.141.6 If the individual acted in a combination of key assurance partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.		
	NZ291.141.7 If the individual acted in a combination of key assurance partner roles and served as the key assurance partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall, subject to paragraph NZ291.141.8(a), be three consecutive years.		
	<p>NZ291.141.8 If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more cumulative years during the time-on period, the cooling-off period shall be:</p> <p>(a) Five consecutive years where the individual has been the engagement partner for three or more years; or</p> <p>(b) Three consecutive years in the case of any other combination.</p>		

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	NZ291.141.9 If the individual acted in any other combination of key assurance partner roles, the cooling-off period shall be two consecutive years.		and that the assurance practitioner/firm will therefore be subject to Part 4A of the Code
	NZ291.141.10 In determining the number of years that an individual has been a key assurance partner under paragraphs NZ291.141.1 to NZ291.141.2, the length of the relationship shall, where relevant, include time while the individual was a key assurance partner on that engagement at a prior firm.		the Subcommittee is of the view that the imposing the stricter PIE provisions on other assurance engagements is unlikely to significantly improve audit quality beyond what would be achieved by applying the conceptual framework.
	<p>NZ291.141.11 For the duration of the relevant cooling-off period, the individual shall not:</p> <ul style="list-style-type: none"> (a) Be a member of the engagement team or provide quality control for the assurance engagement; (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the assurance engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the engagement); (c) Be responsible for leading or coordinating the firm's professional services to the assurance client or overseeing the firm's relationship with the assurance client; or (d) Undertake any other role or activity not referred to above with respect to the assurance client, including the provision of non-assurance services, that would result in the individual: 		<p>The threat of familiarity due to long association tends to be stronger when the subject matter is the same from year to year, such as is the case in an audit/review engagement. The nature of other assurance engagements is that they may be infrequent, involve different subject matter from engagement to engagement.</p> <p>The Subcommittee also notes, that consideration of the provisions of Part 4A (previously section 290) is necessary if the assurance practitioner is engaged to perform a non-audit/review assurance engagement for an audit or review client.</p> <p>Accordingly, the Subcommittee is of the view that the compelling reason test has not been and that the PIE requirements should not be applied to Part 4B (previously section 291). Rather the Subcommittee is of the view that the</p>

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	<ul style="list-style-type: none"> i. Having significant or frequent interaction with senior management or those charged with governance; or ii. Exerting directly influence on the outcome of the engagement. <p>The provisions of this paragraph are not intended to prevent the individual from assuming a leadership role in the firm, such as that of the Senior or Managing Partner.</p>		conceptual framework is sufficient to address the threats to independence.
	NZ291.141.12 There may be situations where a firm, based on an evaluation of threats in accordance with the general provisions above, concludes that it is not appropriate for an individual who is a key assurance partner to continue in that role even though the length of time served as a key assurance partner is less than seven years. In evaluating the threats, particular consideration shall be given to the roles undertaken and the length of the individual's association with the assurance engagement prior to an individual becoming a key assurance partner.		
	NZ291.141.13 Despite paragraphs NZ291.141.1- NZ291.141.9, key assurance partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key assurance partner as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key assurance partner may remain in that role on the assurance team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended		

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	engagement partner. The firm shall discuss with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.		
	NZ291.141.14 When an assurance client becomes a public interest entity, the length of time the individual has served the assurance client as a key assurance partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the assurance client as a key assurance partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the assurance client as a key assurance partner for a period of six or more cumulative years when the client becomes a public interest entity, the partner may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.		
	NZ291.141.15 When a firm has only a few people with the necessary knowledge and experience to serve as a key assurance partner on the assurance engagement of a public interest entity, rotation of key assurance partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key assurance partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified other requirements which are to be applied, such as the length of time that the key assurance partner may be exempted from		

	Extant PES 1 (Revised)	Initial Assessment	Sub-Committee Re-assessment
	rotation or a regular independent external review.		

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 4.1
Meeting date: 6 June 2018
Subject: NZAuASB Strategic Action Plan 2017/2018 Update
Prepared by: Sylvia van Dyk
Date: 24 May 2018

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objectives

For the Board to:

- NOTE the update on specific actions undertaken on the NZAuASB Strategic Action Plan, as noted in the 2017/18 Implementation Plan for the period 1 July 2017 to 31 May 2018.

Background

1. At its September 2017 meeting the NZAuASB approved the NZAuASB Strategic Action Plan for the 2017-22 period, and the 2017/18 Implementation Plan.
2. At the February 2018 meeting the Board noted the update on specific actions undertaken for the period 1 July 2017 to 31 January 2018. The Board also requested changes to some of the text in the 2017/18 Implementation Plan.
3. We have now included the actual actions against the planned actions for the year to date at agenda item 4.2. We have marked up the amendments, since the previous update we presented to the Board, as underlined or deleted text.

Recommendations

4. We recommend that the Board:
 - NOTE the progress against the NZAuASB Strategic Action Plan for the period 1 July 2017 to 31 May 2018.

Material Presented

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	NZAuASB Strategic Action Plan 2017/18 Update

Actual actions against planned actions as at 25 May 2018.

Specific Strategy 1: Maintain Existing Suites of Standards

Key: Green – ongoing activity and on track Orange – action is work in progress and on track Red – no action taken			
NZAuASB Action 1A.1: Contributing to International Auditing and Assurance Standards Due Process	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<i>The NZAuASB will actively contribute to the "due process" activities of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). These activities relate to the development or amendment of international standards.</i> The Action will comprise:			
a. Ensuring assurance practitioners and relevant users of assurance reports are aware of IAASB and IESBA due process documents and encouraging them to make submissions directly to the international boards and to the NZAuASB;	Ongoing	<ul style="list-style-type: none"> Issue communiques when international documents issued Organise consultation events as appropriate 	Communiques issued to highlight consultation documents: <ul style="list-style-type: none"> IESBA (ED), <i>Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements</i> (Sept 2017). IESBA Fees Questionnaire (Nov 2017) <u>IESBA Consultation, Strategy and Work Plan 2019-2023</u>
b. Responding, as appropriate, to IAASB and IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in conjunction with the Australian Auditing and Assurance Standards Board (AUASB) and		<ul style="list-style-type: none"> Prepare comment letters Liaise with AUASB in accordance with 	Submissions provided to the following international Boards on the following topics: <ul style="list-style-type: none"> IAASB (ED), <i>Proposed International Standard on Auditing 540 (Revised)</i>,

<p>Australian Accounting and Professional Ethical Standards Board (APESB) where appropriate;</p>		<p>established protocol before letters finalised</p> <ul style="list-style-type: none"> • Liaise with APESB to the extent considered appropriate in each case 	<p><i>Auditing Accounting Estimates and Related Disclosures</i> (Jul 2018)</p> <ul style="list-style-type: none"> • (IESBA) Survey on its Strategy and Work Plan Beyond 2018 (Jul 2017). • IESBA (ED) – <i>Proposed Application Material Relating to Professional Scepticism and Professional Judgement</i>. (Jul 2017) • IESBA (ED), <i>Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements</i> (Dec 2017) • IESBA Fees Questionnaire (Feb 2018) • IESBA Consultation Strategy and Work Plan 2019-2023 (in progress)
<p>c. Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.</p>		<ul style="list-style-type: none"> • Participate in events in NZ or Australia (or elsewhere on an exceptional basis) 	<ul style="list-style-type: none"> • Board member and project manager attended AUASB-UNSW research event in Oct 2017

NZAuASB Action 1A.2: Maintaining New Zealand Auditing and Assurance Standards	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will amend the auditing and assurance standards (auditing standards, review engagement standards, other assurance standards) to ensure that the existing suites of standards are maintained on an on-going basis.</i></p> <p>The Action will comprise:</p>			
<p>a. Incorporating any auditing and assurance standards, or amendments to those standards, issued by the IAASB, to achieve convergence, and including working with the AUASB to ensure any changes are appropriately harmonised; and</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Amend standards following due process as documents issued by IAASB • Liaise with AUASB in accordance with harmonisation process protocol 	<p>The following standards/guidance were approved and issued to NZ constituents following due process:</p> <ul style="list-style-type: none"> • Auditor Reporting Additional FAQs (Oct 2017)
<p>b. Incorporating any professional and ethical standards for assurance practitioners, or amendments to those standards, issued by IESBA, including liaising with the APESB to ensure any changes are appropriately harmonised.</p>		<ul style="list-style-type: none"> • Amend standards following due process as documents issued by IESBA • Interact with APESB staff and Chair as appropriate • <u>Observe some APESB meetings to build relationships with staff and the Board</u> • <u>Agree a communications protocol with the APESB</u> • Develop harmonisation process protocol with APESB 	<ul style="list-style-type: none"> • Auditor Rotation – FAQs issued (Aug 2017) • Amendments to PES 1 (Revised) <i>Provisions Addressing the Long Association of Personnel with an Assurance Client</i> (finalised Feb 2018). • Regular ongoing liaison with APESB CEO to ensure harmonisation of standards.

		<ul style="list-style-type: none"> • Apply APESB harmonisation protocol 	
c. Respond as appropriate to any gaps /issues identified with the current suite of standards identified		<ul style="list-style-type: none"> • Develop an appropriate response where such matters are identified. 	<ul style="list-style-type: none"> • Submission to CA ANZ on its ED on Agreed-Upon Procedures engagements, May 2018
NZAuASB Action 1A.3:	Timing	2017/18 Planned Actions	2017/18 Actual Actions
Monitoring the Assurance Environment			
<p><i>The NZAuASB will monitor the wider assurance environment and consider the implications of any developing issues for New Zealand auditing and assurance standards.</i></p> <p>The Action will comprise:</p>			
a. Monitoring issues arising from the implementation of the current suite of standards and responding as appropriate;	Ongoing	<ul style="list-style-type: none"> • Passive monitoring via media, public sources, and relationship contacts • Monitor modified auditor reports and report half yearly to Board 	<ul style="list-style-type: none"> • Ongoing monitoring occurring. Environmental scanning report standard agenda item. • Modified audit report update provided in Sept 2017 Next report to the Board to be in July 2018
b. Monitoring issues or gaps with the current suite of standards and responding as appropriate.	Ongoing	<ul style="list-style-type: none"> • Take action as appropriate as matters arise during the year 	<ul style="list-style-type: none"> • Issued ED Proposed Amendments to Professional and Ethical Standard 1 (Revised) <i>Definition of Public Interest Entity in Oct 2017.</i> • Approved amendments to PES 1 for definition of public interest entity in Feb 2018 (refer agenda 4) <p>Other matters in progress:</p> <ul style="list-style-type: none"> • Reconsider compelling reason amendments to PES-1 relating to NOCLAR and independence for other assurance engagements (refer agenda 3)

			<ul style="list-style-type: none"> Considering FAQ on rotation requirements for dual listed entities
c. Tracking local and international research projects and considering the implications for the New Zealand auditing and assurance standards;	Ongoing	<ul style="list-style-type: none"> Monitor projects 	<ul style="list-style-type: none"> Ongoing monitoring occurring. Environmental scanning report standard agenda item
d. Monitoring results from QA reviews conducted locally and internationally and considering the implications for New Zealand auditing and assurance standards;	Ongoing	<ul style="list-style-type: none"> Director continue to observe-participate at FMA Audit Oversight Committee meetings <u>and report as necessary to the Board</u> Analyse results of QA reviews for standards issues. Liaise with FMA on reviews conducted. Report summary of QA findings to Board on quarterly basis 	<ul style="list-style-type: none"> Ongoing attendance-participation at Audit Oversight Committee meetings, <u>and reporting to the Board as necessary.</u> Ongoing regular liaison with FMA on audit quality review issues
e. Contributing to government policy work relating to auditing and assurance <u>and other related services</u> standards	Ongoing	<ul style="list-style-type: none"> Interact with MBIE and other agencies as requested by them, or as identified as necessary 	<ul style="list-style-type: none"> Ongoing contact with MBIE regarding progress on change in mandate for AUP standard. Ongoing contact with RBNZ regarding auditor reporting
f. Building relationships and liaising with other relevant NSSs on matters of mutual interests		<ul style="list-style-type: none"> Consider matters raised at NSS meetings and take appropriate actions if any implications for NZ standards Interact with APESB at NSS meetings and at least annually through 	<ul style="list-style-type: none"> Ongoing and regular liaison with APESB through senior staff contact. Chair and Senior project manager attended APESB Board meeting in August 2017. <u>Chair and Director attended NSS meetings in May 2018</u>

		Chair-Chair and senior staff level contact <ul style="list-style-type: none"> Have 6-monthly phone catch up with Canadian ethics NSS chair. Follow up NSS meeting contacts as appropriate 	<ul style="list-style-type: none"> Chair and Director had phone catch up with Canadian Ethics Chair and Director in May, as well as a meeting alongside the NSS meeting
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Specific Strategy 1: Address Critical Issues

NZAuASB Action 1B.2:	Timing	2017/18 Planned Actions	2017/18 Actual Actions
Developing an Assurance Standard on the Examination of Prospective financial information			
<i>The NZAuASB will develop an assurance standard for other assurance engagements involving the examination of prospective financial information.</i> This action will comprise:			
Developing the standard in accordance with the due process for domestic standards, ensuring harmonisation with the AUASB standard as appropriate.	Commence 2017/18 Complete 2018/19	<ul style="list-style-type: none"> Approve project plan and Commence development of standard in accordance with the agreed project plan 	<ul style="list-style-type: none"> Project plan approved at Oct 2017 meeting. Issues paper considered at Feb 2017 meeting Project in progress
NZAuASB Action 1B.3: Developing an Auditing Standard on Auditing Service Performance Information	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<i>The NZAuASB will develop an auditing standard on auditing service performance for Public Benefit Entities (PBEs).</i> The Action will comprise:			

Developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Whole year	<ul style="list-style-type: none"> Develop SSP audit standard for exposure September 2017 Issue standard 	<ul style="list-style-type: none"> ED SSP audit standard issued Sept 2017 Board noted overview of comments at Feb 2018 meeting Consideration of all comments and review of marked draft June 2017 (refer agenda 5)
NZAuASB Action 1B.5: Developing guidance on the use of the XRB auditing and assurance standards and relative assurance products	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will develop guidance that explain the difference between reasonable and limited assurance, as well as various assurance products that are available, and relevant standards to use, how to deal with unclear assurance requirements, and the correct terminology to use when setting assurance requirements in legislation and/or policies.</i></p> <p>The action will comprise:</p>			
Developing appropriate guidance.	Whole year.	<ul style="list-style-type: none"> Complete guidance for policy makers and legislators by 30 Dec 2017 Develop further guidance in accordance with the approved project plan. Include guidance on website Promote the guidance 	<ul style="list-style-type: none"> Guidance approved at the Oct 2017 meeting. Promotion plan of guidance considered at Feb 2018 meeting Guidance included on website and promoted via newsletter Promotion of guidance in progress
NZAuASB Action 1B.6: Developing a review standard on reviewing service performance information	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will develop a review standard on reviewing service performance information for Public Benefit Entities (PBEs)</i></p> <p>The action will comprise:</p>			

Developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Commence 2 nd half 2017-18 and complete 2018-19	<ul style="list-style-type: none"> Approve project plan and commence development of the engagement standard in accordance with the agreed project plan. 	Yet to commence.
NZAuASB Action 1B.7: Developing an engagement standard/guidance for smaller NFPs	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will develop an engagement standard/guidance for smaller NFPs not required to have an audit or a review to better meet the needs of users, as informed by research completed in 2016-17.</i></p> <p>The action will comprise:</p>			
Developing the standard/guidance in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Commence 2 nd half of 2017-2018 and complete in 2018-2019	<ul style="list-style-type: none"> Approve project plan and commence development of the engagement standard/guidance in accordance with the agreed project plan 	Yet to commence.
NZAuASB Action 1B.9: Developing guidance or amending NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will consider developing guidance or amending NZ SRE 2410 for the new auditor reporting requirements.</i></p> <p>This action will comprise:</p>			

Deciding whether to amend the standard or to only develop guidance, similar to guidance developed by the AUASB. Amending the standard in accordance with the due process for domestic standards or developing guidance similar to the AUASB guidance.	Whole year.	<ul style="list-style-type: none"> Consider issues paper and decide whether to amend the standard, or to develop guidance. Approve the project plan and amend the standard and/or develop the guidance in accordance with the approved project plan 	Yet to commence.
NZAuASB Action 1B.10: Consider developing guidance for Audit Committees, similar to the audit committee practice guide recently issued in Australia.	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<i>The NZAuASB will consider whether to develop guidance for Audit Committees, similar to the guidance recently issued in Australia.</i> This action will comprise:			
Consider the guidance for Audit Committees recently published in Australia, and decide whether to develop similar guidance in New Zealand, in collaboration with other parties.	Commence 2 nd half of 2017-2018 and complete in 2018-2019	<ul style="list-style-type: none"> Consider issues paper and decide whether to develop similar guidance for New Zealand. If decide to develop similar guidance, approve the project plan. Develop the guidance in accordance with the approved project plan. 	To consider issues paper (refer agenda item 6, June 2018)

Specific Strategy 2: Undertake User-Needs Research

NZAuASB Action 2.1 Researching Assurance Needs of Users of Non-Public Interest Entities Reports	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will research the assurance needs of users of assurance reports for entities that are not public interest entities (non-PIEs). The result of the research will be used as input into a future review of whether users' needs are appropriately met by the less stringent requirements for assurance for non-PIEs.</i></p> <p>This Action is an outsourced XRB Combined project and comprises:</p>			
a. Identifying the types of entities that make up the non-PIE population	Completed		
b. A literature review on user assurance needs for those types of entities	Completed		
c. An empirically-based analysis of the users of assurance reports of those types of entities and their assurance needs	to complete 1 st half 2017/18	<ul style="list-style-type: none"> To consider research findings and recommendations 	Research completed. Draft Report Tier 2 For Profit User Needs Research considered at the Dec 2017 strategy meeting.
NZAuASB Action 2.2: Obtaining a better understanding about the integrity of the application of ISAE (NZ) 3000(Revised)	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAUASB will complete its research to seek information about to what extent and how the XRB standards on assurance engagements are applied by assurance practitioners (including non-accountants) performing other assurance engagements in New Zealand. The results of the research will be used as a basis for considering enhancements to the NZAuASB's standards in the future, and to help inform efforts to influence the work of the international setting boards.</i></p> <p>The action comprises:</p>			
a. Identifying the types of assurance engagements other than audits and reviews, assurance practitioners conduct in New Zealand in	Completed 2016/17.		

accordance with or with reference to the XRB assurance standards			
b. Analysing to what extent and how the XRB assurance standards are applied, and whether they adequately address the assurance requirements.	To complete 1st half of 2017/18.	<ul style="list-style-type: none"> To consider research findings and recommendations 	<ul style="list-style-type: none"> Project completed in Sept 2017. No further action required.

Specific Strategy 3: Influence the International Boards

NZAuASB Action 3.1: Building Relationships with the IAASB	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will seek to build and maintain relationships with IAASB members and staff.</i></p> <p>The Action will comprise:</p>			
a. Attending relevant meetings and events (including National Standard Setters meetings);	Ongoing	<ul style="list-style-type: none"> Director to attend IAASB meetings as Technical Advisor (TA) to Lyn Provost Chair to observe IAASB meetings in conjunction with NSS meeting or otherwise as appropriate 	<ul style="list-style-type: none"> Ongoing attendance by Director at all IAASB meetings, <u>and report provided to the Board on each meeting.</u> <u>Chair and Director attended NSS meeting in May 2018. Refer report at agenda 2.10.</u>

b. Taking opportunities to meet with IAASB members and staff;		<ul style="list-style-type: none"> Interact with key staff and Chair as appropriate 	<ul style="list-style-type: none"> Ongoing
c. Fostering relationships with Australasian representatives on the IAASB and those who are involved in relevant working groups;		<ul style="list-style-type: none"> Support Lyn Provost as IAASB member (see 3,3) and interact regularly with Fiona Campbell at IAASB meetings and on specific topics as required Work with AUASB at chair and staff level to influence international agenda. Explore possibility of Regional NSS meetings 	<ul style="list-style-type: none"> Lyn Provost and Director attended AUASB meeting in December together with Fiona Campbell. Ongoing liaison with Fiona Campbell at IAASB meetings Ongoing liaison with AUASB Chair, Technical Director and staff
d. Hosting IAASB members and staff in visits to New Zealand as appropriate.		<ul style="list-style-type: none"> Host IAASB members and staff as appropriate 	
NZAuASB Action 3.2: Increasing the International Visibility of the NZAuASB	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will take advantage of opportunities to increase its visibility in the international arena so as to illustrate its ability to contribute to the work of the IAASB in a constructive and high quality way.</i></p> <p>The Action will comprise:</p>			
a. Volunteering to present at the NSS meetings on New Zealand projects or with the AUASB on joint projects; and	Ongoing	<ul style="list-style-type: none"> Identify possible topic to present on at NSS in Nov May 2018 	<ul style="list-style-type: none"> <u>Joint Chairing with AUASB at private session on how NSS can best to identify issues with IAASB standards and feed that information to the IAASB (NSS meeting May 2018).</u>

b. Identifying an appropriate, mutually beneficial IAASB project and contributing technical resources in support of that project.	Ongoing	<ul style="list-style-type: none"> Follow up discussions initiated with IAASB to support EER project. Contribute resources to other mutual beneficial projects as opportunities arise, for example AUPs and scalability of ISAs for SMEs 	<ul style="list-style-type: none"> Provided Chair of EER Taskforce with SSP audit standard and EG Au9 guidance Senior project manager assisted IAASB staff with ISA 540 project
NZAuASB Action 3.3: Supporting Lyn Provost in her role as IAASB member	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will provide support to Lyn Provost in her role as IAASB member.</i></p> <p>The Action will comprise:</p>			
Providing support to Lyn Provost	Ongoing	<ul style="list-style-type: none"> Director to attend IAASB meetings as Technical Advisor (TA) to Lyn Provost Invite Lyn Provost to Board meetings Establish Technical Advisory Group and arrange meetings to receive input before each IAASB meeting Arrange high-level discussions between Lyn Provost and NZAuASB when appropriate (for example, at the outset 	<ul style="list-style-type: none"> Ongoing attendance at all IAASB meetings Established Technical Advisory Group. First meeting held in December, next in March. <u>Marje Russ and Clint Ramoo (Audit New Zealand) appointed to IAASB Project Advisory Panel for EER project (Mar 2018).</u>

		of the response process on ISA 315 review).	
NZAuASB Action 3.4: Building Relationships with the IESBA	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will seek to build relationships with IESBA members and staff.</i></p> <p>The Action will comprise:</p>			
a. Attending relevant meetings and events (including NSS meetings);	Ongoing	<ul style="list-style-type: none"> Senior Project Manager to attend IESBA meeting in Dec 2017 Chair to observe IESBA meetings in conjunction with NSS meeting or otherwise as appropriate 	<ul style="list-style-type: none"> Senior project manager attended IESBA meeting in Dec Chair and Director attended NSS meeting in May 2018
b. Taking opportunities to meet with IESBA members and staff; and		<ul style="list-style-type: none"> Interact with key staff and Chair as appropriate Secondment of Senior Project Manager to IESBA during Dec and January. 	<ul style="list-style-type: none"> Ongoing Senior project manager completed secondment to IESBA IESBA Chair and Director will be hosted by the XRB on their outreach visit November 12-13, 2018
c. Fostering relationships with Australian representatives on the IESBA.		<ul style="list-style-type: none"> Build relationship with Australian IESBA member – Invite to a NZAuASB meeting. 	

Specific Strategy 4: Enhance Constituency Engagement and Support

NZAuASB Action 4.1: Enhancing Auditing and Assurance Standards Due Process Consultation	Timing	2017/18 Planned Actions	2017/18 Actual Actions

The NZAuASB will seek to enhance consultation with major assurance practitioners and user constituent groups on specific issues relating to the auditing and assurance standards, especially consultation relating to due process documents.

The Action will comprise:

a. Identifying and implementing innovative, targeted consultation methods that are high value-added but relatively low-effort from the constituents' point of view; and	Ongoing	<ul style="list-style-type: none"> • Continue current due process engagement methods • Develop new communications & engagement approach that reflects different target groups • Implement the XRB's communication strategy for social media when developed. 	<p>Ongoing.</p> <ul style="list-style-type: none"> • XRBrief articles • Various webinars and roundtables held on specific subjects. • Survey monkey conducted with Shareholders Association on new auditor reporting. • One on one interviews, video conferences and teleconferences conducted with TCWG, directors, preparers and auditors on new auditor reporting experiences. • Perspective article for CAANZ on audit of SPI Oct 2017
b. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.		<ul style="list-style-type: none"> • Present updates on Auditing and Assurance standards to accounting, auditing, legal, and director community audiences • Promote other Topics as arise • Identify and engage with relevant groups about major new exposure drafts and standards. 	<ul style="list-style-type: none"> • Roundtables held on SSP ED in Auckland, Christchurch and Wellington Nov 2017 • Senior project manager presented in 6 cities auditing assurance standards update Oct/Nov 2017 • Director presented at Staples Rodway audit training on assurance standards and SSP ED in Dec 2017; • Director presented at BDO audit training Feb 2018 • Senior project manager presented in May 2019 on audit of SPI at Australasian Conference of HLB MANN JUDD Limited Chartered Accountants. • Various meetings held with NZX about long association matters.

NZAuASB Action 4.2:	Timing	2017/18 Planned Actions	2017/18 Actual Actions
Undertaking On-Going Dialogue with Auditing and Assurance Standards Constituent Groups			
<i>The NZAuASB will undertake an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing & assurance standards, including changes resulting from the evolving nature of the audit market.</i>			
The Action will comprise:			
a. Meeting with major constituent groups on a rolling basis as part of the NZAuASB's regular meetings;	Ongoing	<ul style="list-style-type: none"> Organise regular meetings To target: <ul style="list-style-type: none"> - practitioners from firms - IoD representatives - NZX representatives - FMA representatives 	<ul style="list-style-type: none"> Rob Everett from the FMA attended meeting July 2017 Refer agenda 2.3.1 for planned invitations
b. Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups; and	Ongoing	<ul style="list-style-type: none"> Organise seminars & round tables Attend other fora Attend mid-tier forum 	<ul style="list-style-type: none"> Board member and senior project member presented on assurance service performance at CAANZ audit seminar in Nov 2017. Chair participated in Panel discussion on the Future of Auditing at CAANZ audit conference Nov 2017 Chair and Board member participated in Law Society webinar on perspectives from the standard setter on the new auditor reporting standards (June 2018)
c. Maintaining strong working relationships at the operational level with key constituent groups.	Ongoing	<ul style="list-style-type: none"> Built relationships with key groups identified. 	<ul style="list-style-type: none"> Ongoing liaison with FMA, assurance practitioners, Charity Services, OAG, AUASB, APESB, RBNZ, IOD, Shareholders Association, CAANZ
NZAuASB Action 4.3:	Timing	2017/18 Planned Actions	2017/18 Actual Actions

Improving Engagement Relating to Other Assurance Reports			
<p><i>The NZAuASB will seek to improve its engagement with assurance practitioners and (particularly) users of Other Assurance Reports (i.e. assurance engagements other than audits and reviews of historical financial statements).</i></p> <p>The Action will comprise:</p>			
a. Developing and maintaining a constituency database identifying these users and assurance practitioners;	Ongoing	<ul style="list-style-type: none"> Maintain database 	<ul style="list-style-type: none"> Ongoing
b. Specifically targeting this group when consulting about relevant standards using customised communication approaches.	Whole of year	<ul style="list-style-type: none"> Run targeted communications where relevant 	
NZAuASB Action 4.4:	Timing	2017/18 Planned Actions	2017/18 Actual Actions
Improving Engagement with Small Assurance Practitioners			
<p><i>The NZAuASB will seek to improve its engagement with assurance practitioners that are small firms and sole practitioners.</i></p> <p>The Action will comprise:</p>			
a. Developing and maintaining a constituency database identifying these assurance practitioners;	Ongoing	<ul style="list-style-type: none"> Maintain database 	<ul style="list-style-type: none"> Ongoing
b. Specifically targeting this group when consulting about relevant standards using customised communication approaches.	Ongoing	<ul style="list-style-type: none"> Run targeted communications where relevant, for example webinars, speaking opportunities at SMP's in-house training, surveys. 	<ul style="list-style-type: none"> Newsletter issued in Oct 2017 to promote IAASB webinar on proposed revisions to Quality Control for Firms (ISQC1). Director presented at Staples Rodway audit training on assurance standards and SSP ED in Dec 2017.

		<ul style="list-style-type: none"> • Liaise with professional bodies and raise awareness at special interest group meetings. • Run targeted communications on the proposed changes to ISQC1. 	<ul style="list-style-type: none"> • Director presented auditing standards update at BDO audit training conference, Feb 2018 • Senior project manager presented in May 2019 on audit of SPI at Australasian Conference of HLB MANN JUDD Limited Chartered Accountants
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NZAuASB Action 4.5: Promoting Understanding of Other Assurance Engagements	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will undertake activities to promote an increased understanding of the requirements of Other Assurance Standards and the engagements they apply to.</i></p> <p>The Action will comprise:</p>			
Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance practitioners and users about what comprises Other Assurance engagements and the standards that apply to those engagements.		<ul style="list-style-type: none"> • Promote guidance developed on the Compliance Engagement Standard • Prepare "Fact Sheet"/Guidance on other assurance engagements • Speaking engagements as opportunities arise • Targeted meetings with users 	<ul style="list-style-type: none"> • Board decided to postpone development of this guidance until after post implementation review.

NZAuASB Action 4.6: Promoting Greater Understanding of the Purpose of Audits and Reviews	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will undertake activities to promote an increased understanding by assurance users of the purpose of audit and review engagements</i></p> <p>This Action will comprise:</p>			
a. Actively encourage, facilitate and support other relevant organisations to help them educate their members on the purpose of audit and review; and	Ongoing	<ul style="list-style-type: none"> • Liaise with Charity Services, CAANZ, CPA, IoD, RBNZ, Law Society. 	<ul style="list-style-type: none"> • Promoted and distributed Guidance for funders of not-for -profits to Charity Services and other not-for profit organisations
b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate to help raise awareness of assurance users and those charged with governance in the general constituency about the purpose of audit and review engagements, with a particular emphasis on the NFP sector.	Ongoing	<ul style="list-style-type: none"> • Speaking engagements as opportunities arise • Second journal Article for LawTalk • XRBrief article • Publish and Promote guidance developed 	<ul style="list-style-type: none"> • Published XRB brief on Guidance for funders of not-for-profits on website and promoted via newsletter, and at IAASB meetings and NSS meetings. • Distribution plan for Guidance for policy makers considered <u>Feb 2018</u> • <u>Two Articles by Chair in Law Talk in Sept 2017 about the role of the NZAuASB and trustee reporting matters.</u> • <u>Published guidance for policy makers on website and promoted by a newsletter</u> • <u>Chair presented together with the Director Accounting Standards in the panel discussion at the Charity Law and Accounting Conference on 26 April.</u>

NZAuASB Action 4.7: Promoting Understanding of the New Auditor Reporting Requirements	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will undertake activities to promote an understanding of the IAASB's new auditor reporting requirements as they apply to New Zealand reporting entities.</i></p> <p>The Action will comprise:</p>			
a. Actively encourage, facilitate and support other relevant organisations where appropriate to help them ensure their members understand the new auditor reporting requirements; and	Whole of year	<ul style="list-style-type: none"> Liaise with FMA, IoD, INFINZ, CAANZ (NZ), CPA, RBNZ and others. 	<ul style="list-style-type: none"> Joint report with FMA on new auditor reporting published in Dec 2017 and distributed to wide audience via various media.
b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate to help raise awareness of assurance users and those charged with governance about the new auditor reporting requirements.		<ul style="list-style-type: none"> Speaking engagements as opportunities arise Complete joint project with the FMA on the reporting of KAM, in accordance with the agreed project plan. Promote results of joint FMA project 	<ul style="list-style-type: none"> Completed joint project with FMA on reporting of KAM Promoted joint KAM report: <ul style="list-style-type: none"> distributed at the IAASB meeting, via LinkedIn CEO conducted Radio interview Article in the NBR,
NZAuASB Action 4.8: Promoting Understanding of the new NOCLAR Requirements	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will undertake activities to promote an understanding of the new NOCLAR requirements that apply to assurance practitioners.</i></p> <p>The action will comprise:</p>			
a. Actively encourage, facilitate and support other relevant organisations where appropriate to help	Whole of year	<ul style="list-style-type: none"> Liaise with IOD about doing an awareness 	-No specific action to date

them ensure their members understand the new NOCLAR reporting requirements; and		raising session as part of the director education series.	
b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance users and those charged with governance about the new NOCLAR reporting requirements.		<ul style="list-style-type: none"> • Include topic in annual update presentations • Speaking engagements as opportunities arise 	
NZAuASB Action 4.9: Promoting Understanding of the factors that Affect Audit Quality	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<i>The focus of the NZAuASB's specific actions will be to work with other key organisations to enhance audit quality</i> This action will comprise:			
a. Actively encourage, facilitate and support other relevant organisations where appropriate to help them ensure their members understand the factors that affect audit quality, including the role of all participants in the external reporting supply chain;	Ongoing	<ul style="list-style-type: none"> • Promote the audit quality framework as opportunities arise • Liaise with IOD to do an awareness raising session as part of the director education series 	No specific action to date
b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance users and those charged with governance about the factors that affect audit quality		<ul style="list-style-type: none"> • Speaking engagements as opportunities arise • XRBrief article • Promote guidance developed. 	No specific action to date

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 5.1
Meeting date: 6 June 2018
Subject: Standard on Service Performance Information
Date: 29 May 2018
Prepared by: Misha Pieters

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Action Required

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For Information Purposes Only

Agenda Item Objectives

To:

- RESOLVE remaining key matters identified;
- CONSIDER the amended draft standard;
- NOTE an analysis of all feedback raised in response to ED NZAuASB 2017-2 to fulfil due process considerations; and
- AGREE next steps in progressing the amended draft.

Background

1. At the April meeting, the NZAuASB discussed a way forward in response to mixed feedback received on ED NZAuASB 2017-2. Since the April meeting, the service performance sub-committee has held 2 teleconferences and met with the NZASB sub-committee to report back on the discussions so far. Staff have met with the technical staff of the OAG to discuss materiality concerns in more detail. A follow up meeting with the OAG staff has been arranged for the end of May and a verbal update will be provided at the June meeting.
2. The amended draft at agenda item 5.3 (marked from the April meeting papers) reflects recommended changes as a result of feedback from all stakeholders.
3. Key matters for discussion by the NZAuASB are considered in the issues paper at agenda 5.2.

Action

4. We request that the NZAuASB:
 - a. Note the analysis of comments prepared (as part of due process considerations);
 - b. Provide feedback on the remaining matters identified in the key issues paper;

- c. Provide feedback on the amended standard and next steps.

Material Presented

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Issues paper
Agenda item 5.3	Amended standard (mark up from April)
Agenda item 5.4	Amended standard (clean)
Agenda item 5.5	Complete analysis of feedback received

Remaining issues

1. The Board made a number of decisions relating to the development of an amended standard on the audit of service performance information (SPI) at its meeting in April 2018. Subsequent to the April meeting an amended draft was shared with the NZASB SPI sub-committee members. While the NZAuASB sub-committee was largely supportive of those amendments, the NZASB sub-committee continued to raise concerns that there is a disconnect between PBE FRS 48¹ and the auditing standard. Subsequently, we have made further amendments which have not yet been considered by the NZAuASB sub-committee. These changes are discussed in more detail below.
2. In addition, the mark up reflects additional recommendations or comments raised by other stakeholders in response to the invitation to comment. This memo also explores remaining key issues not yet discussed by the Board but that have been discussed by the sub-committee during teleconferences held in May.
3. This memo explores the following key remaining issues:
 - a. Framework neutral versus consistency with PBE FRS 48 (changes highlighted in blue in agenda item 5.3)
 - i. “Reporting process” and compilation methods
 - ii. Characteristics versus qualitative characteristics
 - b. Guidance on use of a service organisation
 - c. Assertions
 - d. Reference to both the ISAs (NZ) and the domestic standard
 - e. Materiality (changes highlighted in green in agenda item 5.3).

Framework neutral versus consistency with PBE FRS 48

4. The NZASB sub-committee members remain concerned at the disconnect between the draft auditing standard and PBE FRS 48. They recommend that PBE FRS 48 should be the starting point for developing the auditing standard.
5. We consider that there are opposing views as to what language the auditing standard should use. While the NZASB members are strongly of the view that PBE FRS 48 language should be used, this has never been the objective of the NZAuASB. While there is disagreement over this point, the auditing standard is likely to continue to cause concern for the NZASB members.
6. The NZAuASB has been mindful that the auditing standard will form part of the ISAs (NZ). The ISAs are written in a framework neutral manner, reflecting the audit approach to a subject matter, rather than developed as a reaction to a specific accounting standard. The ISAs do not map to IFRS or the IPSAS. However, the NZASB sub-committee members are expecting the auditing standard to map to PBE FRS 48.

¹ PBE FRS 48 Service Performance Reporting

7. The advantages of mapping to PBE FRS 48 would be that:
- a. the language would match, and the NZASB sub-committee consider that this would result in easier conversations between preparer and auditor; and
 - b. the auditor would not run the risk of looking for things that are not covered by the accounting standard.
8. However, we consider that there are many disadvantages to matching the words to PBE FRS 48:
- a. This would require the NZAuASB to amend the auditing standard every time the NZASB amends the accounting standards. The NZAuASB will already need to amend the auditing standard when the IAASB revises the ISAs. Mapping to PBE FRS 48 as well, would open up the need for further changes in wording if the IPSASB or the NZASB make changes to the accounting standards. This would mean constant tweaks to the words used in the standard, which is likely to confuse rather than to assist the auditor.
 - b. The ISAs (NZ) do not map to IFRS and there is no intent to do so. For example, ISA 210² refers to the characteristics of suitable criteria. These do not map to the qualitative characteristics (QCs) referred to in IFRS or IPSAS, noting that there are differences between the QCs in these frameworks (i.e. the difference in the qualitative characteristics already exists between the auditing standards and the accounting standards.) This is not a new problem and auditors are not having trouble applying the ISAs to audits of financial statements as a result. The IAASB cannot map to one or the other of these suites of standards as the QCs differ between the international accounting boards.
 - c. PBE FRS 48 is not the only standard that requires entities in New Zealand to report service performance information. PBE FRS 48 will only apply to approximately 4% of registered charities. The tier 3 standard will apply to approximately 21% and the tier 4 standard to 75%. Even though tier 4 entities are not required by law to have their performance report audited, this practice remains common and the auditing standard will be referred to when auditors undertake this work. A framework neutral approach recognises that the auditor must apply the same requirements when performing an audit of SPI regardless of the size of the entity (as an audit is an audit). The qualitative characteristics underpinning PBE FRS 48 do not apply to tier 4 entities. (i.e. there are no applicable QCs in the accounting requirements for tier 4).
 - d. The auditing standard is not written for the preparer and the preparer is unlikely to ever read the auditing standard. It is developed for the auditor. The auditor is (or should be) familiar with the language and approach adopted in the ISAs, which is a framework neutral approach. The auditing standard will be a part of the ISAs (NZ) and therefore should match the language and approach of that suite of standards.
9. We continue to recommend that a framework neutral approach is adopted, consistent with the language and approach used in the ISAs as far as possible. Where possible, wording to bridge the gap between the auditing standards and the accounting standards can be used.

² ISA (NZ) 210 Agreeing the Terms of Audit Engagements, Appendix 2

10. The submission from BDO, Staples Rodway and CAANZ were explicitly supportive of such an approach. For example:

“We consider that such a standard should be consistent with the format and tone of ISAs to the greatest extent possible. Further, we consider that the overarching approach to the development of such a standard should be to provide guidance on how ISAs should be applied to the audit of service performance information, rather than creating new requirements. We note that this is the approach that the NZAuASB has taken to the development of the Exposure Draft.”

11. What is the view of the NZAuASB with respect to the need to align the wording with PBE FRS 48 as opposed to using a framework neutral approach?
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Reporting process and compilation methods

12. The NZAuASB acknowledged that the term “criteria” was likely to cause confusion. Feedback in response to the exposure draft indicated that there was wide misunderstanding as to what “criteria” meant. Even though “criteria” is consistent with assurance framework terminology, and is also referred to in the conceptual framework (as the recognition and measurement “criteria”) and in AG 4 (although in a minimal way), the NZAuASB agreed to change the terminology to enhance understanding and promote consistent application.
13. In April, the board considered the term “reporting policies and procedures” as an alternative. NZASB members continue to disapprove of this language as there is no requirement in PBE FRS 48 for the entity to have or to report the “reporting policies and procedures” with respect to the service performance information. As an example, the requirement for those charged with governance to acknowledge their responsibilities with reference to the reporting policies and procedures is considered problematic as there is no such requirement in the accounting standards. We note that there is no requirement for the entity to have internal controls in the accounting standards, yet this is also agreed to in the engagement terms.
14. The suggestion, from the NZASB, to bridge the gap between the standards is to reflect that PBE FRS 48 sets out a “process” that the preparer must follow to select and present its service performance information. Although the term “process” is not used in PBE FRS 48, the NZASB sub-committee members consider that this aligns more with the thinking.
15. Another term that is used in PBE FRS 48 is “compilation methods”.
16. We have amended the draft to make use of this terminology rather than “reporting policies and procedures” as previously discussed. “Reporting process” could be defined as proposed in paragraph 7(f):
- “Reporting process – The process used by the entity in deciding how to meet the principles of the applicable financial reporting framework in reporting its service performance (including the selection, measurement, descriptions, aggregation and presentation of its service performance information). The reporting process will identify compilation methods that the entity will use in preparing its service performance information.”
17. Key wording to get feedback on is how to describe the responsibilities of those charged with governance and how to describe the auditor’s responsibilities (in essence the words used to describe step 1 in the audit process) as these words will be reflected in the engagement

letter (refer to para 11(a) and (b) of amended draft) and are repeated in the written representation letter and auditor reporting requirements. This could be articulated as follows:

“The terms of the audit engagement shall include:

- a. The responsibilities of the auditor with respect to the general purpose financial report:
 - i. To understand the reporting process applied by the entity to select what service performance to report on and the compilation methods adopted to report its service performance;
 - ii. To evaluate whether the entity’s compilation methods will result in service performance information that is suitable in accordance with the applicable financial reporting framework;
- b. The responsibilities of those charged with governance, including that they acknowledge and understand their responsibility to follow a reporting process and adopt compilation methods that are suitable in accordance with the applicable financial reporting framework;”

18. What is the board’s views on use of (and definition for) “reporting process” and “compilation methods” and the way in which step one has been articulated?

19. Another key concern of the NZASB sub-committee is that the characteristics referred to in paragraph 22 of the amended draft are similar to but differ from the qualitative characteristics in PBE FRS 48. The concern is that the auditor will be looking for something different to what the preparer is required to do in accordance with PBE FRS 48. There is a concern that the characteristics under the assurance framework refer to 5 matters and the qualitative characteristics in PBE FRS 48 refers to 6. As illustrated in Appendix 2, we consider that these differences can be mapped and explained, and in substance do not require a different work effort by the auditor. If, for example, the auditor, challenges the preparer regarding the “completeness” of the information, we do not foresee that this will be problematic. PBE FRS 48 does not include completeness as a QC but makes use of this word as a subset of faithful representation.
20. As a follow up exercise to the joint sub-committee meeting, we tried to draft the standard to reflect the language in PBE FRS 48 – this generated further questions about the use of the term “suitable” and linking to “appropriate and meaningful” in PBE FRS 48. We consider that the work effort of the auditor will be the same, regardless of whether the assurance language or PBE FRS 48 language is used, but recommend maintaining a link to the assurance framework and remaining as framework neutral as possible.
21. This matter was discussed in April and the Board requested us to separate references to the characteristics and QCs into two separate requirements:
 - a. To evaluate the qualitative characteristics; and
 - b. To evaluate the suitability with reference to the characteristics articulated in the assurance framework.

then add application material and a flowchart in the appendix. A draft including these amendments was considered by the sub-committee and is available on request.

22. On further reflection, and due to the strong concerns raised by the NZASB members, we have re-evaluated the need for two requirements. As highlighted above, we consider that this problem already exists, in that the characteristics in ISA (NZ) 210 do not map to IFRS or IPSAS, and there is no evidence to suggest that these words have created any difficulties for auditors. There are not currently two requirements in the ISAs.
23. We continue to recommend that the auditing standard remain framework neutral and aligned with the assurance framework (for the reasons articulated above).
24. We do not consider that there is a different work effort that will be required (i.e. there are not two steps in evaluating the judgements made by the preparer in evaluating what to report on and how to depict that information). The auditor will not arrive at a different conclusion and will do no additional work to evaluate the QCs under PBE FRS 48 or the characteristics under the assurance framework. This is because in substance they are requiring the same things but have used different words to describe the characteristics.
25. We recommend retaining the approach in the ED, referring to the characteristics in the assurance framework (but elevating the words into the requirements as discussed in April). We further suggest that the application material developed after the April meeting is included in the application material to explain that the words may be different, but the work effort is the same, rather than include two separate requirements for the auditor to follow. (refer to paragraph A24-A26 in the amended draft). Appendix 2 has been amended to illustrate how the words are similar.

26. **What is the Board's view on the requirement to evaluate whether the compilation methods adopted will result in suitable service performance information (para 22), the application material and appendix 2?**

Guidance on the use of a service organisation

27. The OAG's submission noted that use of service organisations is a practical challenge in the public sector. "Entities that report service performance information often contract with other entities to deliver services. Alternatively, entities may use a service organisation to deliver services on their behalf. It would be helpful if the ED included "Application and Other Explanatory Material" that assists auditors when they need to obtain evidence about services delivered by contractors, service organisations or other third parties, in particular where those third parties are directly responsible for collecting the service performance information that is reported. For example, where local authorities report road smoothness information provided by third party contractors or entities that provide grants report on what that grant has been used for, based on information from the recipient."
28. ISA (NZ) 402 *Audit Considerations Relating to an Entity Using a Service Organisation* deals with the auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity use the services of one or more service organisations. A service organisation is defined as a third party organisation that provides services to user entities that are part of those entities information systems relevant to financial reporting.
29. In developing the exposure draft, the NZAuASB included a requirement to apply ISA (NZ) 402 to the service performance information. No additional or specific guidance unique to SPI was developed.

30. While the SSPWG agrees that use of a service organisation may be a significant matter to work through with respect to the audit of SPI, the SSPWG discussed that there is not a significant difference between service performance information and the financial statement issues when it relates to use of a service organisation. For this reason, no additional application material has been identified for development.
31. Amendments have been made to the draft standard to:
- emphasise that ISA (NZ) 402 must be applied to the SPI (as ISA (NZ) 402 is explicitly dealing with where the work of a service organisation relates to the audit of the financial statements);
 - highlight that even where an entity is reporting on its own (and not in conjunction with other entities) the auditor may also consider the implications of a service organisation.

32. Does the Board agree that no further application material dealing with a service organisation should be included in the amended draft standard?

Assertions

33. The ITC sought feedback on the assertions identified in the exposure draft, including an additional assertion related to “attribution”.

34. The feedback received (Q12) was mixed:

Supportive of proposed assertions	Not supportive/some concern
KPMG, BDO, Staples Rodway, AUASB technical group, PwC, Auckland roundtables	OAG, Treasury, CAANZ, Wellington roundtables

35. Feedback from the Auckland roundtable was supportive of including “attribution”, noting however that this is a challenging area. Feedback from the Wellington roundtable was less supportive of including “attribution” as an assertion, as further described in the OAG response.
36. Treasury commented that “the assertion about attribution may be problematic in the public sector where multiple organisations contribute to influencing particular outcomes without necessarily being able to quantify or evidence their impact. It is unclear whether this is supportive of including attribution as an assertion but highlighting the challenge of doing so, or whether this is not supportive because of the challenge it presents. This could be something we explore with them when we meet to discuss the submission.
37. CAANZ considers that it is better to align with the assertions in the ISAs (NZ) and that whilst they “agree that “attribution” is important, it could be combined into “occurrence”. For example, *“service performance that has been reported has occurred and the entity has evidence to support its involvement”*. Also “consistency” should not be a ‘new’ assertion given that the entity’s service performance criteria can change year on year. Instead “classification” should be reinstated and could mean *“service performance information has been recorded in the proper performance measure and/or description.”*
38. The OAG also commented on attribution and consistency:

“While we agree that these are important concepts to be considered by auditors, in our view, these are not assertions. Instead, we think they are more accurately described as being part of the qualitative characteristics of information.”

The OAG commented that “there is a significant overlap between the “occurrence” and “Attributable to the entity” assertions. This overlap introduces a level of confusion. Similarly, the “consistency” assertion is embodied in the qualitative characteristic of “comparability”.”

39. The example raised at the Auckland roundtable discussion may be useful to distinguish “attribution” from “occurrence”. Many charities may be working together to plant trees. If 5 charities join together and have a tree planting day the planting of 5000 trees may be reported by each of the five charities. The tree planting occurred (i.e. 5000 trees have been planted on a particular day) however 5000 trees are not attributable to each of the 5 charities (i.e. 25000 were not planted), rather each charity contributed to the planting of 5000 trees.
40. A Wellington round table participant considered that the term contribution rather than attribution may be more appropriate – i.e. each of the five charities contributed to planting 5000 trees.
41. The AUASB commented that attribution “is a new assertion in addition to those traditionally applied and is specific to SPI. The ATG agree that the inclusion of the assertion of attribution is appropriate for the subject matter of SPI. However, the NZAuASB may need to consider that there is a lack of clarity between the assertions listed in the ITC Q12 and paragraph 58 (ii) i-v — qualitative and pervasive constraints of information, including completeness, neutrality, reliability, relevance and understandability. The differences between the PBE Conceptual Framework assertions and those in paragraph 58 may need to be explained further. Do balance, transparency and clarity also play a part in reporting SPI?
42. We highlight the following references to attribution and assertions in the amended draft standard:
 - a. Para 25 (in amended draft) - the auditor is required to evaluate whether the SPI inappropriately attributes service performance to the entity.

This requirement considers attribution in evaluating suitability (step 1)— is this sufficient or is there also a need to evaluate attribution as part of step 2?
 - b. Para A53 - new application paragraph from ISA 315, added based on feedback from Staples Rodway— reminds the auditor that they may use the assertions described in the application material or may describe these differently – this addition provides the option for the auditor to include attribution separately or as part of occurrence
 - c. Para A55 - describes the assertion “attributable to the entity” as proposed in the exposure draft.

<p>43. The sub-committee recommends retaining attribution noting that this is a “may” not a “shall” and that the ISAs themselves allow flexibility in the way in which the assertions are described. Does the Board agree?</p>

44. The NZAuASB discussed the need for “classification” as an assertion at the June 2017 meeting. “Classification” was included in prior drafts of the ED to cover the three

dimensions of service performance: outputs, outcomes and impacts. When the accounting standard was lifted higher, the board agreed that “classification” was no longer considered necessary as there is no need to distinguish between the dimensions of service performance information under the revised accounting standard. The idea that the entity’s service performance criteria may in themselves classify information in a certain way is another way that classification could be understood, e.g. as a “high”, “medium” or “low” ranking as examples of the way in which information may be “classified”. We consider that accuracy may address this as it looks at the “measures and descriptions have been recorded, measured or described appropriately”.

45. The sub-committee recommends leaving out “classification” which may confuse the auditor with respect to classification as output, outcome or impact, terms which have been dropped in PBE FRS 48. Does the Board agree to leave out “classification”?

46. “Consistency” of reporting is referred to in paragraph 36 of PBE FRS 48:

“Service performance information should provide users with a basis and context to compare an entity’s service performance over time, and where appropriate, against planned performance or the performance of other entities. **Consistency** of reporting aids comparability and this Standard establishes requirements for consistent reporting. However, an entity’s service performance activities and performance measures and/or descriptions may change over time. This Standard requires that an entity provide information about those changes.”

47. The auditing standard requires the auditor to consider changes made to the SPI in paragraph 24. As the standard has a specific requirement dealing with changes, the sub-committee recommend deleting the assertion of consistency.

48. Does the Board agree to delete “consistency” as an assertion?

49. The AUASB commented that there seems “to be a difference in the definition of completeness as set out in [assertion paragraph in the auditing standard]: “all significant service performance that should have been reported has been included in the service performance information”, to that set out in para 9b of [PBE FRS 48] being: “Completeness implies that the service performance information presents an overall impression of the entity’s service performance with appropriate links to financial information.” We consider the exposure drafts definition implies a more thorough analysis.

50. Completeness as a characteristic of suitable criteria relates to the following - “criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information.” We consider that this is similar to qualitative characteristic of completeness referred to in PBE FRS 48.

51. Completeness as an assertion, as described in ISA 315 relates to whether “all transactions and events that should have been recorded, and all related disclosures that should have been included in the financial statements have been included.

52. The sub-committee considers that there is a difference between the characteristic of completeness and the assertion of completeness and that this is appropriately addressed in the draft amended standard. Does the Board agree?

Reference to ISAs (NZ) and the domestic standard

53. During roundtable discussions and as raised in the more formal responses received³, concern has been raised at requiring references to both the ISAs (NZ) and the domestic auditing standard in the engagement letter and auditor's report.
54. KPMG commented, "One other concern we have regarding this ED are the practical issues that come with this standard not being included in the ISA (NZ) suite of auditing standards. We acknowledge that this is the first New Zealand specific auditing standard, however, having two sets of auditing standards is going to create practical annoyances. For example, in engagement letters and auditor's reports, we would be required to call out both the ISA (NZ) standards and this NZ AS standard. It would be our preference to avoid this if possible."
55. Through feedback received at the roundtables, practitioners identified that this is a key area where there is already and is likely to remain confusion and inadvertent non-compliance with the standard.
56. When developing the ED, the NZAuASB was mindful of the prescriptive requirements in the ISAs, and was mindful to ensure that the requirements of the domestic standards adhere to the ISAs.
57. In particular, ISA 700, paragraph 42-43 states:
42. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the ISAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section, unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the ISAs. (Ref: Para. A53–A55)
43. If other reporting responsibilities are presented in the same section as the related report elements required by the ISAs, **the auditor's report shall clearly differentiate the other reporting responsibilities from the reporting** that is required by the ISAs. (Ref: Para. A55)
58. The NZAuASB has previously considered feedback from a technical advisor to the IAASB related to whether the opinion on the service performance information can be included in the same section as the financial statements (as contemplated in para 42 of ISA 700). The Board concluded that this is appropriate in the New Zealand context given that the SPI is part of the "financial statements" as defined in domestic legislation.
59. In order to overcome the requirement in paragraph 43 to clearly differentiate the other reporting responsibilities from the reporting required by the ISAs, the ED separated the responsibilities with reference to the SPI by referencing to the domestic auditing standard.

³ KPMG submission, Wellington roundtable

60. We note that the domestic auditing standard will be brought into the ISA (NZ) suite by conforming amendments to XRB A1. Compliance with the ISAs (NZ) will therefore implicitly mean that the auditor has complied with the domestic auditing standard on service performance information, where applicable. These paragraphs quoted above, refer to the ISAs (NZ) in ISA (NZ) 700.
61. One option is to consider whether it may be better for auditor's reports that include SPI in the scope of the audit to be in compliance with the ISAs (NZ) but technically not in compliance with paragraph 42 of ISA 700. (since the ISAs (NZ) will deal with SPI but the ISAs do not). The benefit of such an approach is to streamline the report further and avoid cumbersome cross references to the ISAs (NZ) and the domestic auditing standard.
62. The sub-committee recommends complying with the ISAs (NZ) but not technically complying with the ISAs is a pragmatic solution to avert inadvertent non-compliance with the auditing standards in New Zealand.
63. For this reason, there has been some substantive changes to the illustrative auditor reports and the reporting requirements in the amended draft standard. These changes reflect that if a more pragmatic approach is adopted, then there is no need to distinguish between the financial statement and service performance information in as much detail, which was proposed so as to remain compliant with the ISAs.
64. Additional application material has been added in draft paragraph A68 as follows:
- The auditor may assert compliance with the International Standards on Auditing (New Zealand) but may not assert compliance with the International Standards on Auditing where the auditor's report refers to service performance information.

65. Does the Board agree to streamline the references to the ISAs (NZ) and reduce the complications of referring to the ISAs (NZ) and the domestic auditing standard, noting that technically this may be non-compliant with the ISAs?

Materiality

66. Given prior feedback on the importance and challenge around materiality, we held a teleconference with the technical staff of the OAG to obtain further insight into how the requirements and application material in the auditing standard could be enhanced.
67. These discussions highlighted some useful suggestions which are explored in more detail below and highlighted in green in the amended draft. We thank the technical staff of the OAG for their time and suggestions. These suggestions have resulted in changes, supported by the NZAuASB sub-committee, to:
- a. Highlight the link between the evaluation of the suitability of what the preparer has selected to report on and the way to depict the information and the materiality considerations – this has been elevated from the application material into the requirements and may be emphasised more in line with the two-step materiality process that is current practice in the public sector. (refer paragraph 31)
 - b. Remove the arbitrary distinction between the materiality levels and materiality factors, as these considerations impact on both quantitative and qualitative information. This has resulted in some re-ordering of the application material. (Para A48-A49)

- c. Remove references to performance materiality. Given that the auditor is dealing with multiple units of account, performance materiality is not relevant.
 - d. Add additional words and examples of things to think about in establishing materiality (to add more practical guidance to the standard in paragraph A49 mostly).
 - e. Add an additional application paragraph (A52) to clarify the reference to the assessment of the risk of material misstatement at the general purpose financial report level.
68. The OAG may be seeking even further practical application guidance. However, the sub-committee recommends that this may be best positioned outside of the standard in separate guidance.
69. Current practice in the public sector is that there is likely to be a large number of performance measures reported by an entity. This drives a two-stage materiality process as it is not practical to perform extensive audit procedures on every performance measure reported (for example where there are 200+ measures). Step 1 is to determine the most important measures – described in AG 4 as material matters - i.e. identify the measures on which to focus the audit effort. Step 2 is to determine a materiality level for those measures.
70. Where an entity is reporting 200+ measures, we consider that the first step for the auditor is to evaluate whether all of those measures are in fact suitable? The ED eluded to a two step materiality process in application material:
- a. Consideration of how the preparer has applied the qualitative characteristics in the accounting standard to determine what to report on and its suitability
 - b. Evaluate whether what is reported is free from material misstatement.

As noted, we suggest that this two-step process should be emphasized more in the standard and elevated to a requirement.

71. We continue to recommend that this is where further guidance for the preparer is needed. Relevance is closely linked to judgements about materiality. By definition, if a performance measure is relevant, it could reasonably be expected to influence decisions of users. Information that is not material will not, by definition, influence decision making and therefore should not be included in the report as it is not relevant. Therefore, we consider that if the entity is reporting 200+ measures, then all 200+ measures are by definition relevant/material. We consider that the first step is to possibly push back against the reporting of 200+ measures, but that this is better addressed in guidance to the preparer. The focus should be on getting this right with the preparer. The NZASB has already commenced work on their guidance.
72. We consider that the approach in the ED was consistent with current practice in the public sector, but may be expressed differently. The ED requires the auditor to establish materiality for the purposes of identifying the risks of material misstatement. The audit takes a risk approach – focussing audit effort on the areas where there is the highest risk of material misstatement. An additional requirement has been added in the amended draft to remind the auditor that nominal work effort is required for all material information – e.g. analytical review type work. (refer to paragraph 36).
73. Para 34 of the amended draft requires the auditor to identify and assess the risk of material misstatement at the assertion level for material service performance information. We consider that the proposed approach is sufficiently flexible to allow for the current practice of the OAG to continue. We requested the OAG to reflect on whether this is workable for the

public sector, and if not to highlight where or why they do not believe this to be true.

74. Does the Board agree with the amendments and additions made to the requirements and application material with respect to materiality?

THE AUDIT OF SERVICE PERFORMANCE INFORMATION

Issued by the New Zealand Auditing and Assurance Standards Board

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Commented [MP2]: Consider rearranging to include these examples in this standard rather than including in the back of the ISAs (NZ)

NZ AS 1

New Zealand Auditing Standard (NZ AS) ~~1XX~~, *The Audit of Service Performance Information*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.

History of Amendments

Table of pronouncements – NZ AS ~~1XX~~ *The Audit of Service Performance Information*

This table lists the pronouncements establishing and amending NZ AS ~~1XX~~.

Pronouncements	Date approved	Effective date
New Zealand Auditing Standard 1XX		This NZ AS is effective for audits of service performance information included in the general purpose financial report for periods beginning on or after 1 January 2021.

Introduction

Scope of this NZ AS

1. This New Zealand Auditing Standard (NZ AS) deals with the auditor's responsibilities with respect to service performance information when an auditor is engaged to audit the general purpose financial report. Such an engagement would only be undertaken by the independent auditor of the financial statements of the entity. The auditor performs the audit of the service performance information concurrently with the audit of the financial statements. (Ref: Para. A1)
2. This NZ AS establishes requirements and provides guidance not addressed by ~~the other~~ International Standards on Auditing (New Zealand) (ISAs (NZ)) with respect to service performance information. (Ref: Para. A2)
3. This NZ AS applies when the auditor is required by law or regulation or is otherwise engaged to audit the general purpose financial report, that is, engaged to audit both the financial statements and the service performance information. For purposes of this NZ AS, the financial statements and the service performance information are collectively referred to as the general purpose financial report. (Ref: Para. A3-A5, Appendix 1)
4. This NZ AS is not applicable when a review engagement is to be performed on the general purpose financial report.

Commented [MP3]: The domestic standard will form a part of the ISAs (NZ)

Effective Date

5. This NZ AS is effective for audits of service performance information included in the general purpose financial report for periods beginning on or after **1 January 2021**. Early adoption is permitted.

Objectives

6. The objectives of the auditor are:

- (a) **To understand the reporting process applied by the entity to select what and how to report its service performance;**
- ~~(a)(b)~~ **To evaluate whether the service performance selected and the entity's service performance information compilation methods used are suitable so as to result in service performance information – and related reporting policies and procedures provide a reasonable basis for reporting the entity's service performance and meet the principles in accordance with – of the applicable financial reporting framework;**
- ~~(b)(c)~~ To obtain reasonable assurance about whether the service performance information included in the general purpose financial report is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on the service performance information;
- ~~(c)(d)~~ To report, in accordance with the auditor's findings, about whether the service performance information included in the general purpose financial report is prepared, in all material respects in accordance with the applicable financial reporting framework; and

Commented [MP4]: Treasury suggests the standard lacks a clear objective statement (e.g. to support the effective auditing of service performance reporting). The objective is structured in a manner that is similar to the objective of the auditing standards. No change is recommended.

~~(d)~~(e) To communicate further as required by the ISAs (NZ) and this NZ AS, in accordance with the auditor's findings.

Definitions

7. For purposes of this NZ AS, the following terms have the meanings attributed below:

(a) General purpose financial report – Comprise the financial statements and service performance information and, where applicable, entity information, prepared in accordance with the applicable financial reporting framework. The general purpose financial report may be referred to as a Performance Report. (Ref: Appendix 1)

(b) Long-form report – Auditor's report including other information and explanations that are intended to meet the information needs of intended users but not to affect the auditor's opinion. (Ref: Para. A68–A69)

Commented [MP5]: AUASB recommended including definition of long form report if retain option for flexibility. Tailored definition from ASAE 3100

~~(b)(c)~~ Misstatement – A difference between the reported service performance information and the appropriate selection, measurement, description, aggregation, or evaluation presentation, or disclosure of service performance information and the selection, measurement, description, aggregation, presentation or disclosure that is required for the information to be in accordance by the entity's reporting policies and procedures developed in accordance with the applicable financial reporting framework. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud.

Commented [MP6]: Align with definition of misstatement in the ISAs but reflect the wording in PBE FRS 48 – also covers the selection of what matters to report on.

~~(e)~~(d) Other information – Financial or non-financial information (other than the financial statements, service performance information, entity information, if applicable and the auditor's report thereon) included in an entity's annual report. (Ref: Para. A5)

~~(d)~~(e) Risk of material misstatement – The risk that the service performance information is materially misstated.

~~(e)~~(f) Reporting policies and procedures process – The reporting policies and procedures process applied used by the entity in deciding how to meet the principles of the applicable financial reporting framework in reporting its service performance (including the selection, measurement, descriptions, aggregation and presentation of its service performance information) implement the applicable financial reporting framework. The reporting process will identify compilation methods that the entity will use in preparing its service performance information. These include the bases, conventions and practices applied consistently by the preparer in identifying, measuring, describing, presenting and disclosing its service performance. (Ref.: Para. A6–A7)

Commented [MP7]: Include reference to reporting process to replace the term criteria – lifting the terminology up as suggested by the OAG and based on feedback from the NZASB.

Requirements

Conduct of the Engagement in Accordance with ISAs (NZ)

8. The auditor shall apply the ISAs (NZ) and this NZ AS when auditing service performance information, as appropriate. Where an entity is required to include entity information within the general purpose financial report, and the auditor is engaged to audit the general purpose financial report, the auditor shall also apply the ISAs (NZ) to the entity information, as appropriate. (Ref: Para. A8–A11, Appendix 1)

Commented [MP8]: OAG concern re reference to entity info. It is our view that this type of information does not generally affect the reported performance of an entity (either financial or non-financial) and therefore, it should not be subject to audit. Instead, it should be regarded as "Other Information", and considered in accordance with ISA (NZ) 720 (Revised):

We note that this is a direct consequence of the accounting standards for Tiers 3 and 4 requiring entity information to be reported as part of the general purpose financial report. It is our view that this is the part of the service performance information that is set aside for management commentary and, as such, has not been prepared for audit. In our view, the scope of the underlying accounting standards should be reviewed.

Staff view: Legally the information is subject to audit therefore needs to be covered by the standard.

9. The auditor shall not represent compliance with this NZ AS unless the auditor has complied with the requirements of both this NZ AS and the ISAs (NZ).

General Principles of an Audit of the General Purpose Financial Report

10. The auditor shall plan and perform the audit by exercising professional judgement and with an attitude of professional scepticism, recognising that circumstances may exist that cause the service performance information to require a material adjustment for it to be prepared in all material respects, in accordance with the applicable financial reporting framework.

Agreement on Audit Engagement Terms

11. The terms of the audit engagement shall include: ¹ (Ref: Para. A12)
- ~~(a) The objective and scope of the audit of the general purpose financial report in accordance with International Standards on Auditing (New Zealand) and this NZ AS;~~
 - (a) The responsibilities of the auditor with respect to the general purpose financial report:
 - i. To understand the reporting process applied by the entity to select what service performance to report on and the compilation methods adopted to report its service performance;
 - ii. To evaluate whether the selected service performance and the related service performance information compilation methods used are suitable so as to result in service performance information in accordance with the applicable financial reporting framework;
 - ~~(b) The responsibilities of those charged with governance, including that they acknowledge and understand their responsibility;~~
 - ~~(c) For the preparation of the general purpose financial report in accordance with the applicable financial reporting framework, including that all relevant matters are reflected in the service performance information;~~
 - ~~(d)(b) For such reporting to follow a reporting process and adopt compilation methods that are suitable in order to prepare service performance information policies and procedures as those charged with governance determine are necessary in accordance with to implement the applicable financial reporting framework, that are suitable in the context of the entity;~~
 - i. For such internal control as those charged with governance determine is necessary to enable the preparation of the general purpose financial report that is free from material misstatement, whether due to fraud or error; and
 - ii. To provide the auditor with access to all information of which those charged with governance are aware that is relevant to the preparation of the general purpose financial report such as records, documentation and other matters;
 - ~~(e)(c)~~ The content of the auditor's report, including whether it will be a long-form report, including additional information about the service performance criteria reporting

Commented [MP9]: The illustrative engagement letter does not specify SPI for each of these points – but refers to GPFR – consider deleting the bullet points in yellow

Commented [MP10]: Consider retaining – this highlights that the responsibilities cover the SPI – and the bullet point that refers to the “suitability of the criteria” meet this requirement specifically

Commented [MP11]: Part c has moved and merged requirement from ED para 13. CAANZ recommended a cross reference to the requirements in the reporting section – however in merging and rearranging these are now listed in detail and checked for consistency therefore do not recommend adding a cross reference.

Commented [MP12]: Consider deleting

Commented [MP13]: No need to highlight this – relevance is one of the QCs required by the applicable financial reporting framework

¹ ISA (NZ) 210, paragraph 9-10

process, compilation methods, detailed findings or recommendations to meet the needs of the intended users.

Documentation

12. The auditor shall document the nature, timing and extent of the audit procedures performed to comply with this NZ AS.² (Ref: Para. A13)
13. The audit documentation shall, as far as possible, provide evidence of the correlation between the audit evidence obtained related to the financial statements and the service performance information.

Laws and Regulations

14. The auditor shall obtain an understanding of:
 - (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates and, in particular, laws and regulations that specify the form, content, preparation and audit of service performance information; and
 - (b) How the entity is complying with that framework.³
15. The auditor shall obtain sufficient appropriate audit evidence that the entity has complied with laws and regulations that have a direct effect on the reporting of service performance information.⁴

Communication with Those Charged with Governance

16. The auditor shall communicate the following matters with those charged with governance:⁵
 - (a) The auditor's views about judgements made in reporting the entity's service performance information, including any deficiencies or areas for improvement. For example, why the auditor considers the ~~entity's selected~~ service performance information or reporting policies and procedures compilation methods are are not suitable to the circumstances; (Ref: Para. A14)
 - (b) Matters involving non-compliance with laws and regulations with respect to service performance reporting obligations; and
 - (c) Deficiencies in internal control with respect to the service performance information that, in the auditor's professional judgement, are of sufficient importance to merit attention.

Planning

17. The auditor shall develop the audit plan to concurrently cover the financial statement information ~~together with~~and the service performance information so that the audit is

² ISA (NZ) 230, *Audit Documentation*, paragraphs 7-16

³ ISA (NZ) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 11

⁴ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁵ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 14-17

performed in the most effective manner and reflects ~~any the correlation with the audit of the financial statements between the service performance information and the financial statement information~~.⁶

18. In establishing the overall audit strategy, the auditor shall:
- Obtain an understanding of the applicable financial reporting framework relevant to service performance information;
 - Obtain an understanding of who the intended users are ~~and the entity's reporting process for understanding what their information needs are~~;
 - Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts in respect of the audit of service performance information.
19. The auditor shall discuss with those charged with governance where and how the entity intends to report its service performance information. (Ref: Para. A15)
20. If the entity intends to report service performance information about service performance provided by other entities, the auditor shall:
- Obtain an understanding of the nature and significance of the services provided by a service organisation and their effect on the user entity's internal control relevant to the audit ~~of the service performance information~~, sufficient to identify and assess the risks of material misstatement and design and perform audit procedures responsive to those risks in accordance with ISA (NZ) 402.⁷ (Ref: Para. A16)
 - Obtain sufficient appropriate audit evidence regarding the service performance information of the components and the consolidation process to express an opinion on whether the group's service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.⁸ (Ref: Para. A16)
 - Communicate clearly with the other practitioner about the scope and timing of the work and findings of the other practitioner and evaluate the sufficiency and appropriateness of evidence obtained and the process for including related information in the service performance information when the auditor intends to use the work of another practitioner.⁷ (Ref: Para. A17)
- when planning the audit of the service performance information.

Commented [MP14]: Staples Rodway suggested edit: "and the service performance information so that the audit is performed in the most effective manner and reflects the correlation between this information and information obtained as part of the audit of the financial statements.

Consider amendments however consider that suggestion may imply that there is a distinction between the audit of SPI and FS so have tried to avoid that.

Commented [MP15]: Feedback from roundtable – that this is overly onerous. Is this not the preparers job and then the auditor to consider the preparers process and understanding? Consider deleting or clarifying that the auditor is to understand preparers process rather than implying the auditor needs to assess users' needs.

Commented [MP16]: To emphasise that 402 applies to SPI

⁶ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 7

⁷ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

⁸ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Understanding the Entity and Its Environment, Including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement

Obtaining an Understanding of the Entity and Its Environment

21. The auditor shall obtain an understanding of:
- The service performance of the entity and the context in which the entity operates;
 - The **entity's reporting process** for identifying what service performance to report on and ~~developing the compilation methods adopted including~~ **related how to reporting policies and procedures** ~~measure, describe, disclosure and present its service performance information~~, as well as what other options were considered; (Ref: Para. A1827–A230)
 - Whether the reporting ~~policies and procedures~~ **process** will generate service performance information that is consistent with and clearly linked to the entity's overall purpose and strategies; (Ref: Para. A231–A232)
 - How much discretion the entity has in **selecting what service performance to report on and the compilation methods used** ~~developing its reporting policies and procedures~~ to apply the applicable financial reporting framework;
 - The extent to which consultation with intended users influenced **the reporting process and the compilation methods adopted** ~~the to develop ment of the service performance information and the reporting policies and procedures~~; and
 - The judgements made in deciding when to provide **comparative** narrative and descriptive information.
- ~~22. The auditor shall evaluate whether the entity's selection of service performance information and related reporting process demonstrate that the entity has appropriately applied the qualitative characteristics and pervasive constraints of information in accordance with the applicable financial reporting framework. (Ref: Para. A33–A38)~~
22. The auditor shall evaluate whether the selected service performance and related compilation methods are suitable so as to result in service performance information in accordance with the applicable financial reporting framework, in that they exhibit the following characteristics: (Ref: Para. A24-A29)⁹
- Relevance** (Ref: Para. A30)
 - Completeness** (Ref: Para. A31)
 - Reliability** (Ref: Para. A32)
 - Neutrality** (Ref: Para. A33)
 - Understandability** (Ref: Para. A34).

Commented [MP17]: Links to PBE FRS 48 9(c)

Commented [MP18]: This may tie to OAG's concern re scope and narrative contextual information - may need to develop further application material?

Commented [MP19]: April meeting – board requested the requirement to be split into two but to cover both the QCs and characteristics. Per issues paper recommend including in application material.

Commented [MP20]: Board agreed to move the characteristics into the requirements

⁹ The applicable financial reporting framework may describe different qualitative characteristics to these characteristics which align with the characteristics referred to in Appendix 2 of ISA (NZ) 210. The application material in paragraphs A39-A43 may need to be tailored to the applicable financial reporting framework. This is illustrated in Appendix 2.

(b) ~~Are suitable, including that they exhibit the characteristics identified in paragraph A33. (Ref: Para. A33–A42)~~

~~(e)(e) Demonstrate that the entity has appropriately applied the qualitative characteristics and pervasive constraints of information in accordance with the applicable financial reporting framework.~~

23. ~~The auditor shall evaluate whether the entity's reporting policies and procedures process are is transparent so as to enable available to intended users to understand the assumptions underlying the information and the compilation methods adopted, for example, or are disclosed in the judgements reported as part of the service performance information or by cross reference to enable the intended user to understand the reporting policies and procedures that have been applied in preparing the reported service performance information and how the entity's service performance has been measured or evaluated. (Ref: Para. A3543–A3644)~~

Commented [MP21]: April board meeting requested to break the sentence up.

Commented [MP22]: Does the standard need to address what happens if not? Or is this sufficiently covered by the option of a long-form report?

24. ~~If the entity's service performance information or reporting policies and procedures have has changed what service performance it reports on or the compilation methods used to report its service performance from the prior period, the auditor shall evaluate whether the changes are suitable in the circumstances, have been approved appropriately, and are explained within the service performance information.~~

Commented [MP23]: CAANZ suggested clarification here and recommends adding the words "or during the reporting period" – does the board consider that this is needed or is amended A38 sufficient clarification that the evaluation is an iterative process? SSPWG member recommends leaving out here – A38 sufficient.

25. The auditor shall evaluate:

- (a) If significant aspects of service performance have been excluded, that have been, or could readily be, measured and/or described, whether such exclusions are reasonable in the circumstances; or ~~(Ref: Para A37–A39)~~
- (b) ~~Whether the reporting policies and procedures will generate service performance information that inappropriately attributes service performance to the entity.~~

26. ~~If the auditor considers, in accordance with paragraphs 31–33, that all or some of the entity's service performance information from applying the entity's reporting policies and procedures will: (Ref: Para. A45–A48)~~

Commented [MP24]: Consider this here and at assertion stage? Yes, part of step 1 and step 2.

- (a) ~~Fails~~ to comply with the applicable financial reporting framework;
- (b) ~~Will not be~~ prepared using compilation methods that are not suitable; or
- (c) Otherwise ~~fails~~ to provide a reasonable basis for fairly reporting the service performance of the entity;

~~the auditor shall discuss the matter with those charged with governance as soon as possible. (Ref: Para. A40)~~

27. The auditor shall determine:

- (a) Whether the matter can be resolved to the auditor's satisfaction;
- (b) Whether further audit procedures can be performed with respect to the service performance information; or (Ref: Para. A4149)
- (c) Whether, and if so, how to communicate the matter in the auditor's report where the matter is not resolved to the auditor's satisfaction.

28. ~~If the auditor considers that some or all of the entity's reporting policies and procedures are unsuitable~~In the circumstances described in paragraph 26, the auditor shall consider the implications for the audit, the auditor's report and the opinion and shall express a qualified, adverse, or a disclaimer of opinion, as appropriate in the circumstances, with respect to the service performance information. (Ref: Para. A671–A769)
29. In the circumstances described in paragraph 2830, the auditor is not required to withdraw from the audit of the general purpose financial report but shall consider the impact of the modified opinion with respect to the service performance information on the financial statements.
30. ~~The auditor shall identify and assess the risks of material misstatement of the service performance information, whether due to fraud or error, at the general purpose financial report, service performance information and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement in accordance with ISA (NZ) 315 (Revised).~~¹⁰

Obtaining an Understanding of the Entity's Internal Control

31. The auditor shall:¹¹

- Obtain an understanding of internal control over the preparation of the service performance information; and
- Evaluate the design of those controls and determine whether they have been implemented as designed. (Ref: Para. A4250)

Materiality in Planning and Performing the Engagement

31. The auditor's consideration of materiality shall include both an evaluation of:

- Whether the judgements made by the preparer in selecting what service performance to report on and the compilation methods used to measure, describe, aggregate and present the service performance information are suitable as required by paragraph 22, and (Ref: Para. A43–A46, A30, A31)
- Individual and collective misstatements in the reported service performance information, that based on the auditor's judgement, are likely to significantly influence the relevant decisions of the intended users. (Ref: Para. A47–A51)

32. The auditor shall determine and document materiality levels and/or materiality factors to be applied to the service performance information for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.¹² ~~The auditor shall determine the materiality level or levels for quantitative service performance information and the materiality factor or factors for the service performance information separate from the materiality levels determined for the financial~~

Commented [MP25]: Repeats para 34 under the heading of identifying and assessing risks below – consider merging

Commented [MP26]: The materiality section has been moved from above the "understanding the entity" section – consider if logic flows?

Commented [MP27]: Consider elevating the idea that materiality covers both what the entity selects to report about and the level of misstatement in the requirements – from application material.

Commented [MP28]: Higher level would be depicted but these words tie to PBE FRS 48 46(g)

Commented [MP29]: OAG concern too many shall statements – try to condense requirements – combined the first two requirements from materiality section of ED into one

Commented [MP30]: Not as clear a distinction as factors for qualitative and levels for quantitative – many of the factors are relevant to determine the level too.

¹⁰—ISA (NZ) 315 (Revised), paragraph 5

¹¹ ISA (NZ) 315 (Revised), paragraph 12

¹² ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraph 10 and 14

statements, where appropriate. (Ref: Para. A4748 – A5126)

~~33.32. The auditor shall determine performance materiality for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. The basis and level may differ from the basis and level for determining performance materiality as required by ISA (NZ) 320.~~

Commented [MP31]: OAG considers that as you are setting a unique performance measure for each performance measure, you don't need to refer to performance materiality. Consider whether to merge para 21 and 22 as illustrated above – or is it necessary to separate? OAG suggests fewer requirements and more application material – less is more.

34.33. The auditor shall revise the judgements made in determining materiality for the service performance information if matters come to the auditor's attention during the audit that would have caused the auditor to have determined different levels or factors initially.

Identifying and Assessing Risks of Material Misstatement

~~35.34.~~ The auditor shall identify and assess the risks of material misstatement, whether due to fraud or error:

- (a) ~~At~~ the general purpose financial report level;¹³
- (b) At the service performance information level; and
- (c) At the assertion level for material service performance information

through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement in accordance with ISA (NZ) 315 (Revised).¹⁴ (Ref: Para. A524 – A55)

Commented [MP32]: OAG staff query why need (a) – covered the need for a holistic view as to whether the report as a whole is materially misstated (bearing in mind the interaction between the financial statement information and the SPI. See recommended additional application material to clarify.

The Auditor's Responses to Assessed Risks

~~36.35.~~ The auditor shall design and perform procedures whose nature, timing and extent¹⁵:

- (a) Are responsive to assessed risks of material misstatement of the service performance information; and
- (b) Allow the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement. The auditor's procedures shall include obtaining sufficient appropriate audit evidence as to the operating effectiveness of the relevant controls over the service performance information when:
 - (i) The auditor's assessment of the risk of material misstatement includes the expectation that controls are operating effectively, or
 - (ii) Where procedures other than tests of controls cannot provide sufficient appropriate audit evidence. (Ref: Para. A562 – A584)

~~37.36.~~ Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for all material service performance information.

Audit Evidence

~~38.37.~~ The auditor shall obtain sufficient appropriate audit evidence to support material

¹³ ISA (NZ) 315 (Revised), paragraph 25

¹⁴ ISA (NZ) 315 (Revised), paragraph 5

¹⁵ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*

service performance information, correlating, as far as possible, with the audit evidence obtained in the audit of the financial statements.¹⁶ (Ref: Para. A5~~95~~–A60~~56~~)

~~39.~~^{38.} The auditor shall consider the relevance and reliability of the information to be used as audit evidence. If:

- (a) Evidence obtained from one source is inconsistent with that obtained from another; or
- (b) The auditor has doubts about the reliability of information to be used as evidence, the auditor shall determine whether additional procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.

~~40.~~^{39.} The auditor's procedures shall include:

- (a) Agreeing or reconciling amounts reported in the service performance information to any underlying financial records;
- (b) Agreeing cross references between the service performance information and the financial statements;
- (c) Understanding any allocation methods adopted and assumptions made, and determining whether the methods adopted are ~~appropriate~~^{suitable}, have been applied consistently and are consistent with the applicable financial reporting framework; and
- (d) Reconciling the aggregate amounts reported in the service performance information to the amounts reported in the financial statements.

~~41.~~^{40.} The auditor shall obtain sufficient appropriate audit evidence about whether any disclosures of judgements related to service performance information are reasonable in the context of the requirements of the applicable financial reporting framework.

Analytical Procedures

~~42.~~^{41.} When designing analytical procedures,¹⁷ the auditor shall evaluate the service performance information through analysis of plausible relationships among both financial and non-financial data.¹⁸

Written Representations

~~43.~~ The auditor shall request written representations from those charged with governance, with appropriate responsibilities for and knowledge of the service performance information, that they have fulfilled their responsibility.¹⁹

~~44.~~ For the preparation of the general purpose financial report in accordance with the applicable financial reporting framework;

~~45.~~ For such to follow a reporting process and adopt compilation methods that are suitable so as

Commented [MP33]: Comment from roundtable discussions – too focussed on measurement and reconciliation to financials. Need to know how to audit a description. This is specific recon between SPI and FS – ideas for additional procedures?
Eg. How to audit a case study?
How to audit a survey response?
Does the standard need to go to this level of detail?

Alternatively should this para be in application material?

Commented [MP34]: OAG comment – auditor should evaluate whether disclosures are appropriately focussed on the critical judgements that have been, or should be, disclosed.
No change proposed – does this requirement address this concern?

Commented [MP35]: Consider deleting yellow highlighting as related to GPFR – same as in the ISAs

Commented [MP36]: To match the terms of agreement above

¹⁶ ISA (NZ) 500, *Audit Evidence*, paragraph 6

¹⁷ ~~ISA (NZ) 520, *Analytical Procedures*, paragraph 6~~

¹⁸ ~~ISA (NZ) 520, *Analytical Procedures*, paragraph 6~~

¹⁹ ~~ISA (NZ) 580, *Written Representations*, paragraph 9~~

to result in service performance information in accordance with the applicable financial reporting framework reporting policies and procedures as those charged with governance determine are necessary to implement the applicable financial reporting framework, that are suitable in the context of the entity, and include the conventions and practices applied in selection, measurement, aggregation and presentation of the entity's service performance;

46. For such internal control as those charged with governance determine is necessary to enable the preparation of the general purpose financial report that is free from material misstatement, whether due to fraud or error;

47. To provide the auditor with access to all information of which those charged with governance are aware that is relevant to the preparation of the general purpose financial report such as records, documentation and other matters;

48-42. as set out in the terms of the audit engagement.²⁰ (Ref: Para. A6157)

Using the Work of an Auditor's Expert

49-43. The auditor shall determine whether specialised skills or knowledge are required regarding the service performance information and whether to use the work of an auditor's expert.²¹ (Ref: Para. A6258)

Forming an Opinion and Reporting

50-44. The auditor shall form an opinion on whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.²² (Ref: Para. A5963)

51. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance and shall take into account:

- (a) The auditor's conclusion whether sufficient, appropriate audit evidence has been obtained;
- (b) The auditor's conclusion whether uncorrected misstatements are material, individually or collectively;
- (c) The auditor's evaluation of whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework; and
- (d) The evaluations in paragraph 46.

52-45. The auditor shall conclude whether, in view of the applicable financial reporting framework:

- (a) The service performance information will assist users in forming assessments about an entity's accountability for service performance and in making decisions that rely on service performance information.

Commented [MP37]: CAANZ comment – "present fairly" omitted – not included here as not appropriate for a compliance framework – consistent with ISAs

Commented [MP38]: Staples Rodway suggested this should be reordered – moved not deleted to para 46 to reflect the chronological nature of

Commented [MP39]: Consider deleting this as already covered

²⁰ ISA (NZ) 580, *Written Representations*, paragraph 9

²¹ ISA (NZ) 620, *Using the Work of an Auditor's Expert*

²² ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 10

(b) ~~The entity has appropriately applied the qualitative characteristics and pervasive constraints of information in accordance with the applicable financial reporting framework. The entity has followed a reporting process and adopted compilation methods that are suitable so as to result in service performance information in accordance with the applicable financial reporting framework.~~

Commented [MP40]: Not needed as is in the lead in

~~(e) The reporting policies and procedures are suitable.~~

Commented [MP41]: Related to QC discussion above – if combine consider if needed?

~~(d)(c) The assumptions underlying the information are explicit, the reporting policies and methodologies adopted in preparing compiling the information and the factors and circumstances that support any opinions expressed or disclosures made are transparent to intended users. (Ref: Para. A6459–A650)~~

Commented [MP42]: Maps to 9(f) of PBE FRS 48

~~(e)(d)~~ When the general purpose financial report is prepared in accordance with a fair presentation framework, the service performance information achieves fair presentation, including whether:

- (i) The overall presentation of the service performance information has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;
- (ii) The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that achieves fair presentation; and
- (iii) The disclosure of the judgements made in reporting the service performance information, if applicable, is reasonable.

46. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance and shall take into account:

- (a) The auditor's conclusion whether sufficient, appropriate audit evidence has been obtained;
- (b) The auditor's conclusion whether uncorrected misstatements are material, individually or collectively;
- (c) The auditor's evaluation of whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.

Commented [MP43]: Removed evaluation of misstatement requirements in ED 40 and 41 – delete here? or make the point that there is no common denominator for collection of misstatements? Recommend retain given OAG comment that this is the challenge, given that the amended draft has completely removed the section on evaluating misstatements.

53.47. The auditor shall consider:

- (a) Any matters arising during the course of the audit of the financial statements that may affect the auditor's evaluation of the service performance information.
- (b) The impacts of any matters arising during the audit of the service performance information that may affect the auditor's evaluation of the financial statements.

Report Content

54.48. The auditor's report on the service performance information shall be included in a single report on the general purpose financial report and shall include the elements required by ISA (NZ) 700 (Revised). (Ref: Para. A662–A673)

55.49. The opinion section of the auditor's report shall:

- (a) Identify the service performance information;
- (b) State that the service performance information has been audited; and
- (c) Include the auditor's opinion on the service performance information prepared in accordance with the applicable financial reporting framework.

~~56-50.~~ When expressing an unmodified opinion on the service performance information prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

- (a) In our opinion ~~the~~ accompanying general purpose financial report presents fairly, in all material respects, the *[financial position of the [entity] as at December 31, 20X1, and its financial performance, ~~and its cash flows~~ and service performance]* for the year then ended; ~~and the service performance information for the year then ended~~ in accordance with *[the applicable financial reporting framework]*; ~~or~~
- (b) In our opinion ~~the~~ accompanying general purpose financial report gives a true and fair view of the *[financial position of the [entity] as at December 31, 20X1, and of its financial performance, ~~and its cash flows~~ and service performance]* for the year then ended; ~~and the service performance information for the year then ended~~ in accordance with *[the applicable financial reporting framework]*.²³

~~57-51.~~ In addition to the requirements addressing financial statements in ISA (NZ) 700 (Revised), the auditor's report shall:

- ~~(a) State, in the basis for opinion section, that the audit of the service performance information was conducted in accordance with International Standards on Auditing (New Zealand) and New Zealand Auditing Standard XX;~~
- ~~(b) Describe, in the responsibilities for the general purpose financial report section, the responsibilities of those charged with governance:~~
 - ~~(c) to follow a reporting process and adopt compilation methods that are suitable so as to result in service performance information. For the preparation of the general purpose financial report in accordance with [the applicable financial reporting framework];~~
 - ~~(d)(a) in accordance with For such reporting policies and procedures as those charged with governance determine is necessary to implement the [applicable financial reporting framework], that are suitable in the context of the entity;~~
 - ~~• For such internal control as those charged with governance determine is necessary to enable the preparation of the general purpose financial report that is free from material misstatement, whether due to fraud or error; and~~
 - ~~• To provide the auditor with access to all information of which those charged with governance are aware that is relevant to the preparation of the general purpose financial report such as records, documentation and other matters.~~

Commented [MP44]: Consider simplifying further and removing sub-bullet points? Suggested at roundtable discussions

Commented [MP45]: Inconsistent with above – recommend adding general purpose throughout illustrations – this is the defined term.

Commented [MP46]: Add footnote to remind auditors including entity information?(or include in illustration?

Commented [MP47]: Discussed in issues paper – SSPWG recommend an pragmatic approach. If remove the split – consider removing this bullet point as is no different from ISA (NZ) (700). Suggest adding application material to clarify that the auditor may not assert compliance with ISAs – on the basis that ISA 700 requires that the auditor's report separate out what is not covered by the ISAs (i.e. the SPI). Suggest deleting words highlighted in yellow

Commented [MP48]: CAANZ comment – this should match the terms in the engagement – an abridged version will create confusion. Illustrations have been reworded and we consider is now consistent.

Commented [MP49]: Consistent with responsibilities agreed in engagement terms

²³ If the applicable financial reporting framework includes requirements for entity information, the opinion may be required by law, regulation or otherwise to cover the entity information.

When the general purpose financial report is prepared in accordance with a fair presentation framework, the description of responsibilities for the financial report in the auditor's report shall refer to "the preparation and fair presentation of the service performance information" or the "preparation of service performance information that gives a true and fair view," as appropriate in the circumstances.

(e)(b) In the "Auditor's Responsibilities for the Audit of the General Purpose Financial Report" section:

- State that the objectives of the auditor are to obtain reasonable assurance about whether the general purpose financial report as a whole is free from material misstatement, whether due to fraud or error;
- Describe the audit by stating that, in accordance with this New Zealand Auditing Standard, the auditor's responsibilities are to evaluate:
 - i. Whether the selected service performance and the related entity's compilation methods adopted are suitable so as to result in service performance information that is service performance information and reporting policies and procedures are in accordance with the applicable financial reporting framework and are suitable;
 - ii. The overall presentation, structure and content of the service performance information general purpose financial report, and whether the general purpose financial report service performance information represents the underlying transactions, events and service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation; and
 - iii. The consistency of the information reported in the financial statements and the service performance information. (Ref: Para. A68–A70)

Commented [MP50]: Staples Rodway comment was that the report may benefit from a high-level overview of the audit procedures performed separately described under the basis for opinion section in accordance with ISAE 3000 reporting requirements. Does this cover this or is there a need to expand further? SSPWG member considers is sufficient as is - no change.

Commented [MP51]: As reflected in the illustrations

Key Audit Matters

58-52. The auditor may be required, or may voluntarily report key audit matters in the auditor's report.²⁴ If reported, key audit matters shall include matters related to the audit of the service performance information where, in the auditor's judgement, such matters were of most significance to the audit of the general purpose financial report.

Modifications to the Opinion in the Independent Auditor's Report

59-53. The auditor shall modify the opinion, with respect to the service performance information, when:²⁵

- (a) The auditor concludes that the selected entity's service performance information and related compilation methods used reporting policies and procedures are not suitable resulting in service performance information that is not in accordance with the

Commented [MP52]: Step 1

²⁴ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

²⁵ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditors Report*

applicable financial reporting framework ~~and/or are not suitable~~; (Ref: Para A~~2933~~–A~~3444~~)

- (b) The auditor concludes, based on the audit evidence obtained, that the service performance information ~~as a whole~~ is not ~~individually or collectively~~ free from material misstatement; or (Ref: Para. A~~7167~~–A~~762~~)
- (c) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information as a whole is free from material misstatement.

Commented [MP53]: OAG sought more guidance where there may be a material misstatement of one performance measure (if that measure is the most important piece of information) or may relate to the collective SPI - is this similar to the pervasiveness of the matter.

~~60-54.~~ When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effects of the modification on the opinion on the financial statements. If the reason for the modified opinion impacts on the general purpose financial report as a whole, the auditor shall modify the opinion on the general purpose financial report.

~~61-55.~~ When the auditor modifies the audit opinion with respect to the service performance information only, the audit opinion shall clearly indicate that the opinion on the financial statements is not modified. The auditor shall use the headings “Qualified Opinion on the Service Performance Information”, “Adverse Opinion on the Service Performance Information” or “Disclaimer of Opinion on the Service Performance Information” as appropriate. The opinion with respect to the financial statements shall use the heading “Opinion on the Financial Statements”.²⁶

~~62-56.~~ If the auditor modifies the opinion on the financial statements, the auditor shall consider the effect of the modification on the opinion on the service performance information. (Ref: Para. A~~713~~)

Emphasis of Matter Paragraphs and Other Matter Paragraphs

~~63-57.~~ If the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the service performance information, that in the auditor’s judgement, is of such importance that it is fundamental to users’ understanding of the service performance information, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report.²⁷

~~64-58.~~ If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the auditor’s judgement, is relevant to user’s understanding of the audit of the service performance information, the auditor shall include an Other Matter paragraph in the auditor’s report.²⁸

Comparative Information

~~65. — ISA (NZ) 710 requires the auditor to evaluate whether the comparative information agrees with the amounts and disclosures presented in the prior period. In addition, (The auditor shall evaluate whether the entity’s service performance information and the reporting process is consistent with that applied in the prior period or, if there have been changes, whether those~~

Commented [MP54]: Repeats para 28 above – delete?

²⁶ Where appropriate, the heading may refer to the entity information.

²⁷ ISA (NZ) 706 (Revised)

²⁸ ISA (NZ) 706 (Revised)

~~changes are appropriate and have been adequately explained.²⁹~~

~~59.~~ Where the entity presents a comparison of published prospective service performance information with the service performance information, the auditor shall evaluate whether the prospective service performance information presented in the general purpose financial report agrees with the information presented in the published prospective service performance information.

~~66.—~~

Commented [MP55]: Consider whether necessary to add procedures related to how to audit any descriptions of variations? This may assist the OAG's concern related to contextual information that is commonly included in the Public sector.

Other Information

~~67-60.~~ In addition to the considerations required by ISA (NZ) 720 (Revised),³⁰ ~~the~~ The auditor shall read the other information and consider whether there is a material inconsistency between:³¹ ~~(Ref: Para. A73–A74)~~

- (a) The other information and the service performance information; and
- (b) The other information and the auditor's knowledge obtained in the audit of the general purpose financial report. ~~(Ref: Para. A78–A79)~~

Application and Other Explanatory Material

Scope of this NZ AS (Ref: Para. 1–~~33~~, 7(~~d~~e))

- A1. ~~Service performance is a narrower concept than non financial performance.~~ Service performance information is information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information.
- A2. Work performed in the audit of the financial ~~information statements~~ can often be used for the purpose of the audit of the service performance information. By highlighting matters that are common to both the financial and service performance information, this NZ AS assists the auditor to accept, plan, perform and report in an effective manner, as well as highlighting areas where there are differences. This is to enable the auditor to perform the work concurrently, effectively and in an all-encompassing manner.
- A3. Some public benefit entities are required by the applicable financial reporting framework to prepare service performance information as part of the general purpose financial report. Appendix 1 illustrates what constitutes the general purpose financial report.
- A4. Principles and requirements for the reporting of service performance information are specified within the applicable financial reporting framework as follows:

²⁹ ~~ISA (NZ) 710, Comparative Information Corresponding Figures and Comparative Financial Statements, paragraph 7~~

³⁰ ~~ISA (NZ) 720 (Revised), The Auditor's Responsibilities Relating to Other Information~~

³¹ ~~ISA (NZ) 720 (Revised), The Auditor's Responsibilities Relating to Other Information~~

- (a) For Tier 1 and Tier 2 public benefit entities, *PBE FRS 48 Service Performance Reporting*.
- (b) For Tier 3 public benefit entities, PBE Simple Format Reporting – Accrual.
- (c) For Tier 4 public benefit entities, PBE Simple Format Reporting – Cash.

The Tier 3 and Tier 4 requirements also require entity information to be reported as part of the general purpose financial report. These requirements refer to the general purpose financial report as a performance report. For the purposes of this NZ AS, references to service performance information shall be taken to include service performance information and entity information, for Tier 3 or Tier 4 entities.

- A5. Some entities that are required by the applicable financial reporting framework to include service performance information in the general purpose financial report, may not be required by law or regulation to have the general purpose financial report audited or reviewed. For example, tier 3 registered charities with operating expenditure under \$500,000, and all tier 4 registered charities may have no statutory assurance requirements. Where the service performance information is not within the scope of the audit engagement, the auditor's responsibility for the service performance information is limited to following the requirements in ISA (NZ) 720 (Revised).

Definitions (Ref: Para. 7(f))

- A6. ~~In the context of service performance information, the~~ applicable financial reporting framework includes principles to guide an entity to ~~develop~~ apply a appropriate reporting policies and procedures ~~process and adopt compilation methods~~ to implement the applicable financial reporting framework. The entity will ~~adopt~~ apply its own reporting policies and procedures ~~process~~ to determine ~~which~~ what service performance to report on, and what performance measures and compilation methodologies to use to measure and/or describe that service performance, how to structure the information, as appropriate in the entity's circumstances and how the information is related to each other and the entity's overall purpose and strategies. Even for the same underlying service performance there can be different ~~criteria~~ compilation methods, which will yield a different measurement or description.
- A7. For example, a preparer might select, as one of the entity's performance measures, the levels of satisfaction using a rating scale on a survey; another preparer might select to report the number of complaints received. These are both examples of how the entity ~~assesses~~ whether ~~evaluates~~ its service performance ~~activities change the well-being and circumstance of a stakeholder group.~~ e

Conduct of the Engagement in Accordance with ISAs (NZ) (Ref: Para. 8)

- A8. The ISAs (NZ), which are based on the International Standards on Auditing (ISAs), are written in the context of an audit of financial statements by an auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. Although the service performance information is considered to be an integral part of an entity's general purpose financial report, the nature of the underlying subject matter included in the service performance information includes non-financial information which is not part of the financial statements as defined in the ISAs (NZ) ~~and~~

Commented [MP56]: This is not part of the financial statements as defined by PBE IPSAS 1 either so this is still consistent with the tier 1 and 2 standards.

~~therefore is not covered by the scope of the ISAs (NZ).~~ However, the requirements of the ISAs (NZ) apply equally to an audit of the entire general purpose financial report, prepared in accordance with the applicable financial reporting framework, where that financial reporting framework also incorporates requirements to prepare service performance information.

A9. ~~International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3000 (Revised) deals with assurance engagements other than audits of historical financial information, which are dealt with in the ISAs (NZ). This NZ AS has been developed as a hybrid standard and incorporates relevant requirements from ISAE (NZ) 3000 (Revised). This NZ AS, together with the ISAs (NZ), including this NZ AS, covers all aspects of the audit of the general purpose financial report and therefore there is no requirement for the auditor to apply ISAE (NZ) 3000 (Revised) to the service performance information.~~

Commented [MP57]: In April Board requested references to ISAE 3000 be removed – done above – consider whether need to retain this statement to clarify when EG Au9 is withdrawn as that explains how to apply ISAE 3000 to SPI.

A10. This NZ AS supplements, ~~but does not replace~~ the other ISAs (NZ). It expands on how the other ISAs (NZ) are to be applied to the service performance information. This NZ AS includes specific requirements for the service performance information that are not dealt with by the other ISAs (NZ) or where the application of the other ISAs (NZ) differs as a result of the nature of the service performance information.

A11. The relevance of each of the ISAs (NZ) to the service performance information requires careful consideration. For example, ISA (NZ) 240,³² ISA (NZ) 540,³³ ISA (NZ) 550³⁴ and ISA (NZ) 570 (Revised)³⁵ are, in principle, relevant. This is because the service performance information could be misstated as a result of fraud, misstated estimates, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

Agreement on Audit Engagement Terms (Ref: Para. 11)

A12. The terms of the audit engagement for the audit of the general purpose financial report include references to the service performance information. An example of an audit engagement letter for an audit of the general purpose financial report including service performance information is set out in ~~the Appendix of ISA (NZ) 2104.~~

Commented [MP58]: Consider moving all SPI illustrations within this standard

Documentation (Ref: Para. 12)

A13. The following are examples of matters that the auditor may consider to be appropriate to include in the audit documentation:

- Planning: The overall engagement strategy, the engagement plan, capturing the nature of the plan, reflecting plans to make connections between the financial information-statements and service performance information, and any significant changes made during the engagement, and the reasons for such changes;

³² ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

³³ ISA (NZ) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

³⁴ ISA (NZ) 550, *Related Parties*

³⁵ ISA (NZ) 570 (Revised), *Going Concern*

- Materiality: The materiality level or levels and/or factor or factors for the service performance information and matters considered in their determination;
- Risks of material misstatement: Key elements of the understanding obtained regarding the entity and its environment specified in paragraphs 24¹, and the risks of material misstatement for which in the auditor's professional judgement further procedures were required;
- Procedures: The nature, timing and extent of the further audit procedures performed, the linkage of those further audit procedures with the risks of material misstatement, and the results of audit procedures;
- Evaluation of misstatements: Misstatements accumulated during the engagement and whether they have been corrected, the auditor's conclusion as to whether uncorrected misstatements are material, and the basis for that conclusion.

Communication with Those Charged with Governance (Ref: Para. 16)

A14. The preparation of service performance information is highly judgemental. As a result, the auditor's views on the judgemental areas of the entity's reporting ~~policies~~~~process~~~~procedures~~~~compilation methods~~ or service performance reporting may be particularly relevant to those charged with governance in discharging their responsibilities for the preparation of the service performance information. Open and constructive communication including feedback on the ~~suitability and maturity~~ of the entity's reporting ~~policies and procedures~~~~process~~, and ~~how the suitability of its compilation methods~~~~processes~~ or ~~how the reporting information~~ compares to other entities may drive improvements in reporting over time. This may include comments about, for example, judgemental aspects of ~~the entity's~~~~what~~ service performance ~~reporting~~~~to report on~~ and ~~policies and procedures~~, concerns regarding bias or the quality of the presentation of the information.

Planning (Ref: Para. 19~~7~~–2018)

A15. Information required to be included in the financial statements by the applicable financial reporting framework may be incorporated therein by cross-reference.³⁶ Such information will form part of the financial statements. Service performance information that is incorporated into the general purpose financial report by cross-reference will form part of the general purpose financial report and will be subject to the audit in accordance with this NZ AS.

A16. The applicable financial reporting framework may allow flexibility in where and how an entity reports its service performance information. It may be appropriate for an entity to report service performance information about service performance provided by other entities. ISA (NZ) 402³⁷ may be relevant to the audit of the service performance information, if the user entity makes use of a service organisation for the preparation of service performance reporting with another entity or where the entity outsources aspects of their business to organisations that provide services ranging from performing a specific task

³⁶ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph A2

³⁷ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

under the direction of the entity to replacing an entity's entire business units or functions that are significant to the service performance information. Alternatively, ISA (NZ) 600³⁸ may be relevant, adapted as necessary to the circumstances, when the auditor involves other auditors in the audit of the service performance information where the service performance information includes information about goods and services provided by other entities.

A17. The service performance information may include information upon which another practitioner may have expressed an opinion. The auditor, in concluding on the general purpose financial report, may decide to use the evidence on which that other practitioner's opinion is based to provide evidence regarding the service performance information included in the general purpose financial report. The work of another practitioner may be used in relation to service performance information that falls outside the boundary of the reporting entity. Such practitioners are not part of the engagement team. Relevant considerations when the engagement team plans to use the work of another auditor may include:

- (a) Whether the auditor understands and complies with the requirements of Professional and Ethical Standard 1 (Revised).
- (b) The other practitioner's professional competence.
- (c) The extent of the engagement teams' involvement in the work of the other practitioner.

Understanding the Entity and Its Environment, Including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement (Ref: Para. 214–29)

A18. ~~Without The entity will follow its the development of suitable reporting policies and procedures process to identify what and how to report its service performance by the entity~~ to implement the applicable financial reporting framework applicable to its the circumstances. Without suitable compilation methods, the entity does not have an appropriate basis on which to prepare the service performance information and the auditor does not have suitable criteria for auditing the service performance information will be unable to meet the objectives of the audit. Without the frame of reference provided by transparent assumptions and compilation methods ~~suitable reporting policies and procedures~~, any conclusion is open to individual interpretation and misunderstanding. The suitability is context-sensitive, that is, it is determined in the context of the ~~engagement entity's~~ circumstances.

A19. The selection of what service performance to report on and the reporting policies developed how to measure or evaluate describe that service performance, and then aggregate and present the information is more judgemental than reporting on financial information. Preparers of service performance information may have a wide variety of performance frameworks, guidance, or codes (or a combination thereof) to choose from in the preparation of this information. The entity will need to interpret the applicable financial reporting framework and either identify or select a pre-existing external reporting policies process, including pre-established performance measures and/or descriptions from

Commented [MP59]: OAG requested additional guidance on use of a service organisation, e.g. when those parties are directly responsible for collecting the service performance information. Refer to issues paper. See suggested additional instance when 402 may be necessary. No additional guidance identified by SSPWG – similar issues to financial statements. Considered to a methodology issue for the OAG/firms.

³⁸ ISA (NZ) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

guidance, standards, or laws or regulation or it may need to apply judgement to develop its own internally developed reporting policies process, including identifying methodologies for measuring or describing its service performance. The need for such judgement makes the preparation of the service performance information adoption of suitable reporting policies and procedures inherently more susceptible to the risk of bias.

A20. In the example where an entity identifies stakeholder satisfaction as the underlying service performance to report on, the entity identifies the most suitable reporting policy method to measure or evaluate describe this performance in the context of the entity. An example could be the number of repeat visits in the three months following the initial visit or xxx. The reporting policies will provide measurement protocols relevant to both these performance measures. In this example, the service performance information in this particular engagement would be the actual number of visits in the three months following the initial visit (e.g. 9 visits to the centre in the 3 weeks that follow the initial visit), resulting from applying the relevant measurement or evaluation criteria.

Commented [MP60]: Recommend including in separate guidance.

A21. The application of professional scepticism by the auditor is particularly important when assessing the neutrality and other characteristics completeness of the service performance selected and the entity developed service performance information compilation methods used including reporting policies and procedures due to the level of judgement to be exercised by the entity. This is particularly important if the entity's reporting policies and procedures compilation methods are not substantially based on established reporting compilation policies and procedures methods generally used in the entity's sector, or are inconsistent with such policies and procedures methods and assumptions. The auditor will need to apply significant professional judgement in the assessment of the suitability of the selected information and the entity's reporting policies and procedures compilation methods in situations where a well-designed due process is not followed or where the intended users were not involved in the selection of what service performance to report on and/or the development of the reporting policies compilation methods to be used.

Commented [MP61]: Both included in the QC of relevance therefore still consistent with FRS 48.

A22. The reporting process used applied by the entity to determine what to report on and the reporting policies how to report its service performance and procedures may affect the work that the auditor carries out to assess whether the policies and procedures are suitable. The level of potential preparer bias in selecting reporting policies and procedures what and how to report its service performance will directly correlate with the amount of work that the auditor will need to perform when considering the design of the entity's reporting policies and procedures compilation methods. For example, use of performance measures specified by external benchmarks or industry guidance may require less work than internally generated performance measures as external guidance reduces the risk of bias. Transparency about how the entity's identified its reporting policies process and the entity's consideration of materiality may also affect the work that the auditor carries out.

Commented [MP62]: Staples Rodway suggestion was to incorporate a rebuttable presumption of the risk of material misstatement relation to the selection of suitable criteria. These application paragraphs have been amended to highlight that the more external input there is the less work effort is likely – is that sufficient or does the board wish to include the notion of a rebuttable presumption? And around the first time and the ongoing need thereafter.

A23. Factors that the auditor may consider in obtaining an understanding of the entity's reporting policies and procedures process include:

- Whether there are factors that are outside the control of the entity or there are long time frames that are required to make assessments of the entity's service performance.
- Examples of the impact of the source of the reporting policies compilation methods:
 - The scope of what service performance to report on or the reporting

~~reporting policies~~ compilation methods adopted may be embodied in law or regulation specific to the entity, industry or sector in which the entity operates and, in particular, with laws and regulations that specify the form and content of service performance information or which describe the entity's accountability. In the absence of indications to the contrary, such ~~reporting policies~~ compilation methods are ~~are~~ presumed to be suitable.

- The entity may use 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, for example, a local authority's Long-Term Plan. ~~Reporting policies~~ Compilation methods and/or performance measures that have been pre-agreed with key stakeholders may have a lower risk of preparer bias.
- The entity may have described predetermined objectives or specific performance goals or targets in agreements with key stakeholders (e.g., in an entity's Long-Term Plan or in funding contracts or agreements with key funders) or in the entity's statement of intent or charter and recent plans and strategies. ~~Reporting policies or performance measures~~ that have been pre-agreed with key stakeholders may have a lower risk of preparer bias.
- 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 auditor may need to evaluate the suitability of these guidelines to the entity's circumstances and to how these align to intended users' needs. A more detailed set of ~~reporting policies~~ compilation methods or performance measures may be more appropriate.
- Results of surveys, e.g., satisfaction surveys, or other evidence of stakeholder consultation, e.g., feedback, complaints, targeted interviews or stakeholder workshops, providing information about who the intended users are and what information they may find helpful to assess the performance of the entity. A well-designed process in developing what service performance to report on and a reporting policy the related compilation methods with involvement of intended users lowers the risk of preparer bias.
- Other external requirements or agreements with external parties that influence the entity's service performance accountability.
- Other contextual information, including strategic and operational objectives. For example, an entity's constitution, trust deed, mission statement, recent plans and strategies.
- How the entity assesses its service performance for the purposes of internal decision making.
- Whether the entity's ~~reporting policies and procedures~~ compilation methods have been validated through research conducted to be well correlated with what they are intended to measure or describe.
- Changes from the prior period in the nature or extent of operations.

Commented [MP63]: AUASB recommendation:

- 5th bullet point highlights surveys — explain that these can include customer satisfaction surveys, Employee engagement surveys; and
- Stakeholder consultation — explain that this can include feedback, complaints, targeted interviews, multi-stakeholder workshops.

- Whether it is appropriate to report on information that falls outside of the boundary of the reporting entity.

A24. When evaluating whether the selected service performance and related compilation methods are suitable, the auditor is evaluating the preparers judgements made in applying the qualitative characteristics referred to in the applicable financial reporting framework. The qualitative characteristics described in the applicable financial reporting framework are similar to the characteristics of suitable criteria described in paragraph 22 but may differ in the words used. The characteristics in paragraph 22 are framework neutral. Appendix 2 illustrates the similarities.

A25. The characteristics are not mutually exclusive, and the relative importance of each characteristic will vary according to the circumstances. The preparer will exercise significant judgement to develop its reporting process and compilation methods to report the entity's service performance that meet the qualitative characteristics.

A26. The auditor's role is to evaluate whether the entity has appropriately applied the qualitative characteristics and pervasive constraints as required by the applicable financial reporting framework in preparing the service performance information. In doing so, the auditor evaluates whether the selected service performance and related compilation methods are suitable. This evaluation will be based on a consideration of the process adopted, and choices and trade-offs made by the preparer in determining the most appropriate manner in which to tell the entity's service performance story.

~~A24-A27. The entity's service performance information selected service performance and compilation methods used are and reporting policies and procedures suitable when the entity has will appropriately have applied the qualitative characteristics and pervasive constraints when they to enable users to make an informed assessment of the entity's service performance, and include reasonable quantitative or qualitative measures or descriptions of service performance against which the entity's service performance may be assessed and are of particular value or importance for accountability and decision-making purposes.~~

~~A25. The qualitative characteristics are not mutually exclusive, and the relative importance of each qualitative characteristic will vary according to the circumstances.~~

~~A26. When evaluating the entity's reporting policies and procedures, the auditor may consider the various components of the entity's service performance and check for credible links, internal logic and consistency with the financial information. Suitable reporting policies and procedures exhibit the following characteristics:~~

- ~~(a) Relevance~~
- ~~(b) Completeness~~
- ~~(c) Reliability~~
- ~~(d) Neutrality~~
- ~~(e) Understandability.~~

~~These characteristics are necessary for an audit to be performed.~~

Commented [MP64]: Suggest removing reference to dual role – unlikely to result in a different answer – so is not really doing something separate – it is the same work effort? Refer issues paper.

Commented [MP65]: New application material to highlight the similarities yet differences between the QCs and characteristics

Commented [MP66]: OK to keep this reference?

Commented [MP67]: To capture treasury comment that this is not an audit judgement about the quality of the performance framework but a review of the choices made by the entity.

Commented [MP68]: Moved

~~A27-A28.~~ When evaluating the suitability of the service performance information selected service performance and related compilation methods and reporting policies and procedures as required by paragraph ~~22-25~~, the auditor may consider:

- (a) The intended users of general purpose financial reports and their information needs, whether users were involved in the selection of what to report on or development of the compilation methods adopted ~~o the reporting policies and procedures~~ and if not, reasons why not;
- (b) How the qualitative characteristics applied by the preparer have influenced the reporting policies and procedures process (e.g., service performance information must be relevant, but the overall volume of information must also be accessible in order for it to be understandable);
- ~~(c) The various components of the entity's service performance and check for credible links, internal logic and consistency with the financial information~~
- ~~(e)(d)~~ How the entity plans to ~~is~~ present and disclose financial and service performance information that is material;
- ~~(d)(e)~~ The complexity of the underlying service performance;
- ~~(e)(f)~~ Other potentially more suitable ~~reporting policies and procedures compilation methods~~ that could have been used and reasons why those were not considered;
- ~~(f)(g)~~ Potential misunderstanding of the resultant service performance information generated after application of the reporting ~~policies and procedures process~~ by intended users; and
- ~~(h)~~ Knowledge of other similar entities reporting format.
- ~~(e)(i)~~ Web and social media searches.

~~A29.~~ The evaluation required by paragraph 22 may be iterative and may require re-evaluation as the auditor's understanding of the entity or the needs of intended users grows, if the entity makes changes to its service performance information, performance measures or descriptions or as the auditor gathers audit evidence.

~~A28-A30.~~ Factors that the auditor may consider when evaluating whether the reporting policies and procedures are relevant include: ~~(Ref: Para 29)~~

- The rationale for the selection of what service performance to report on, for example, whether the service performance relates to a significant risk to the public (e.g., the purity of water supply) or that could have a positive or negative effect on social, economic, or environmental wellbeing.
- Whether the ~~reporting policies and procedures are~~ service performance information is likely to meet the needs of intended users so as to be useful for decision making, for example, is of significant community interest or interest to the public.
- The extent to which consultation with users has influenced the selection of what service performance to report and the compilation methods used ~~reporting policies and procedures.~~
- Information that could significantly affect the reputation of the entity.

Commented [MP69]: New guidance to clarify that this is iterative – not only at the start of the engagement. CAANZ comment was that this is not clear in the ED.

Commented [MP70]: Staples Rodway suggested clarifying if the entity makes changes during the period to clarify that this is not always established at the start of the year.

Commented [MP71]: OAG consider this is both applicable in evaluating what matters are material as well as the level of misstatement that will be tolerated. We agree – do we need to repeat or cross refer – what will be clearer?

Commented [MP72]: Additional factor identified by the OAG.

These relevance factors are identified by the OAG as needing additional emphasis in the materiality consideration – OAG also requested that materiality be separate from suitability. The ED sees a link between the two. The ED covers these factors in the suitability context – is there a need to repeat in the context of materiality?

- Whether the ~~service performance information reporting policies and procedures~~ shows clear and logical links between the service performance to be measured or evaluated and the entity's overall purpose and strategies so that the rationale for their selection is evident.
- Whether the ~~reporting policies~~ compilation methods ~~used~~ will generate service performance information that will be consistent and clearly linked with the financial information for example, relates to service performance that is financially material; or relates to a performance measure that may have a significant effect on management performance ~~rewards~~.

A29-A31. Factors that the auditor may consider when evaluating ~~whether the reporting policies and procedures are~~ completeness include whether:

- All significant aspects of service performance that would enable the user to make an informed assessment are included;
- The service performance includes negative aspects of performance or areas where there is a significant risk of performance failure by the entity.

Completeness relates more to a balanced reflection of service performance rather than an overly comprehensive and extensive set of performance measures which can result in too much information, reducing the relevance of the report.

A30-A32. Factors that the auditor may consider when evaluating ~~whether the reporting policies and procedures are~~ reliability include whether:

- The service performance is capable of measurement or description in a consistent manner from period to period;
- The ~~reporting policies and procedures~~ process are well defined and there is likely to be evidence to support the information that will be generated;
- The ~~service performance information is reporting policies and procedures are~~ capable of validation by the auditor and will not result in unsubstantiated claims, including whether there is a robust and reliable collection process;
- The ~~reporting policies and procedures are~~ compilation methods ~~are~~ likely to result in service performance information that is free from material misstatements, including omission of fact, or misrepresentation of trend;
- The ~~reporting policies and procedures~~ compilation methods ~~are~~ consistent with industry benchmarks, where these are available.

A31-A33. Factors that the auditor may consider when evaluating ~~whether the reporting policies are~~ neutrality include whether the ~~reporting policies and procedures~~ service performance information:

- ~~Are-Is~~ balanced, and ~~are-is~~ likely to result in information that is aggregated, where appropriate, and covers all important aspects, with suitable emphasis, to fairly reflect the significance to the entity's service performance;
- Covers both favourable and unfavourable aspects of the entity's service performance in an unbiased manner;

Commented [MP73]: The OAG's submission also highlights omissions that could significantly affect the reputation of the entity. Consider whether to add this as a separate bullet point.

- ~~Are-Is~~ not changed arbitrarily to remove negative aspects of performance year on year.

Special care may be necessary to evaluate ~~whether the reporting policies and procedures are neutrality where~~, for example, ~~where there are no reporting policies~~ compilation methods established externally, no predetermined performance measures established with key stakeholders ~~as performance objectives or targets~~ or no guidelines developed by an external industry group.

~~A32-A34.~~ Factors that the auditor may consider when evaluating ~~whether the reporting policies are understandability~~ include whether:

- The format adopted is clearly laid out and presented in a way that will enable the user to identify the main points of the entity's service performance in that year;
- The assessment of service performance is coherent, easy to follow, and will result in service performance information that is clear and logical;
- The ~~service performance criteria information are~~ is concise and aggregated where appropriate;
- The information is explained and presented in a way that makes its significance clear ~~and understandable~~.

~~A33. Consider adding a practical example of how these factors would be applied.~~

~~A34-A35.~~ In determining whether the reporting ~~policies and procedures process is transparent and the compilation methods~~ are available to users, the auditor may consider whether there will be enough context for the service performance information, including whether the rationale for determining:

- (a) What service performance to report on; and
- (b) Whether to include information about the role of other entities, collaborative relationships and the provision of resources to others

is transparent to users so that users can understand the judgements made in preparing the service performance information.

~~A35-A36.~~ Disclosure of the judgements made by the entity is important in making the reporting ~~policies and procedures process and compilation methods~~ available to intended users, where, for example, the entity has more discretion in selecting ~~what service performance to report on and the compilation methods to use reporting policies and procedures~~ (i.e., the reporting ~~policies process is~~ internally generated). Alternatively, the reporting ~~policies and procedures process~~ may ~~comprise~~ originate from an external performance framework supplemented by disclosures, in the explanatory notes to the general purpose financial report.

~~A36-A37.~~ In the early stages of reporting service performance information, the entity may not have developed ~~an~~ appropriate reporting ~~policies and procedures process~~ supported by internal controls and may therefore be unable to include certain aspects of its service performance in its service performance information. The auditor exercises professional judgement to conclude on the impact of any such omissions (including those for which the entity has provided reasons or explanations). This is particularly relevant since entities may be at varying stages of maturity in respect of preparing service performance information.

~~A37-A38.~~ For example, in the early stages of an entity generating service performance information, it may focus its reporting on a particular area of service performance because reporting systems have not yet been established and implemented for other areas. The auditor may still be able to conclude that the ~~entity's selection of reporting policies and procedures are service performance and the related compilation methods are suitable~~ if there are:

- (a) Clear disclosures in the service performance information of the facts and reasons surrounding the exclusion of some service performance ~~information~~. However, if the entity makes no progress in developing reporting systems over time or continues to exclude service performance ~~information~~ once reporting systems are established and implemented, the auditor may no longer be satisfied that the ~~reporting policies and procedures are selection and compilation methods are~~ suitable; and
- (b) The auditor concludes that the disclosures provided will meet the information needs of the intended users.

~~A38-A39.~~ Service performance information reported because it is readily quantifiable may not be suitable and may not meet the principles of the applicable financial reporting framework. For example, the entity may select service performance to report on the basis that the selected performance is readily measurable. However, it may not be the most relevant information to enable the user to understand or assess the service performance of the entity during the year.

~~A39-A40.~~ Communication with those charged with governance in a timely manner may enable improvements to be made to the service performance information.

~~A40-A41.~~ Factors the auditor may consider in determining whether to perform further audit procedures include:

- (a) The pervasiveness of the matter;
- (b) The materiality of the matter;
- (c) Whether the auditor's concern is with respect to the presentation of the information only;
- (d) Whether further audit procedures will enable the auditor to express an opinion on some of the service performance information.

Obtaining an Understanding of the Entity's Internal Control (Ref: Para. 303)

~~A41-A42.~~ Control activities that may be relevant to the audit of the financial statements include policies and procedures that pertain to internal management performance reviews,³⁹ including reviews and analyses of actual performance versus budgets and relating different sets of data – operating or financial – to one another. An understanding of the control activities that pertain to performance reviews will be especially relevant to the audit of the general purpose financial report and may assist the auditor to audit the service performance information concurrently with the financial information.

³⁹ ISA (NZ) 315 (Revised), Appendix 1, paragraph 9

Materiality in Planning and Performing the Engagement (Ref: Para. 321–32)

Consideration of what service performance is included in the report

Materiality in the context of service performance information relates to both:

- The service performance selected by the entity to report on and the suitability of the entity's reporting policies and procedures to enable the measurement or evaluation of the entity's service performance (refer paragraph A30, A41); and
- The level of misstatement of reported results that, based on the auditor's judgement, are likely to influence users' understanding of the entity's service performance information.

A43. The relevance of what service performance is selected to be included in the general purpose financial report is strongly linked with judgements made by the entity about the materiality of information. Service performance information is deemed to be material if it could reasonably be expected to influence relevant decisions of intended users. The service performance information will not be considered to be complete if it does not contain all material service performance.

A44. The applicable financial reporting framework discusses the concept of materiality in the context of preparation and presentation of service performance information.⁴⁰ ~~Material issues are the issues that are taken into consideration when the entity or its stakeholders make decisions.~~ Such a discussion provides a frame of reference to the auditor in determining ~~materiality for the audit~~ materiality. The auditor's consideration of the ~~suitability of the entity's service performance information including its reporting~~ entity's policies and procedures reporting process also provides context in determining materiality levels.

A42-A45. The evaluation required by paragraph 22 and factors considered by the auditor in paragraph A30 and A31, provides a frame of reference to the auditor in understanding what matters are of most significance to intended users, and may assist in identifying the risks of material misstatement in the service performance information.

A43-A46. When determining materiality, the auditor may:

- Discuss the entity's ~~process for determination of~~ material service performance information with management and those charged with governance (and, if necessary and appropriate, external stakeholders). It may be appropriate to discuss matters with external stakeholders when the determination of the entity's material service performance information includes, for example, clearly contentious issues or performance measures for which there is no evidence to support the entity's role in the improvements reported.
- Consider whether the entity's determination of material service performance information is consistent with the auditor's knowledge of the entity and the environment, including ~~reporting by similar entities and previous reporting by the~~

Commented [MP74]: PBE FRS 48 (c)

Commented [MP75]: Elevate to requirement – refer para 21

Commented [MP76]: OAG consider adding A para to emphasise that assessing a performance measure to be suitable does not automatically mean that the performance measure is material.

However relevance is interlinked to material information. If the information is relevant when would it not be considered material? This however is separate from the assessment related to risk of material misstatement?

Commented [MP77]: From PBE FRS 48 para 9(a) – feedback from OAG discussion indicated a need for clarity as to how the suitability evaluation ties into the materiality consideration.

Commented [MP78]: Does this clarify that the standard is not requiring the auditor to perform extensive procedures on all performance measures, rather on those where there is a risk of material misstatement.

⁴⁰ PBE IPSAS 1 *Presentation of Financial Statements*, paragraphs 46A.1–2 and Explanatory Guide A7: *Materiality for Public Benefit Entities*

entity and information obtained from sources such as minutes of meetings, media reports and any stakeholder outreach activities, including satisfaction surveys, feedback and complaints received, web and social media searches, targeted interviews or stakeholder workshops.

Materiality levels and factors

A44-A47. The materiality level or levels for the service performance information are expressed in terms of the appropriate unit of measurement account for each element or performance measure reported. The materiality level determines what level of misstatement will be tolerated by the auditor. Using a percentage is another commonly used way to establish such a level. It may be possible to group similar service performance information and make materiality decisions on the same basis if they have the same unit of account. The basis and level may differ from the basis and level for determining materiality as required by ISA (NZ) 320

A45-A48. There are multiple factors that may lead to a material misstatement:

- Omissions of fact – could omissions result in misleading the user?
- Misstatements of fact – could a misstatement result in misleading the user?
- Misrepresentation of trend – does the service performance information make claims that do not represent the facts available?
- Bias – does the service performance information focus unduly on positive aspects of performance, or omit negative aspects?
- Unsubstantiated claims.

A46-A49. The following factors may assist the auditor when exercising professional judgement in determining whether there are material misstatements in either the qualitative or quantitative service performance information. The materiality level or levels are determined based on the auditor's judgements about the levels above which a misstatement or omission is likely to influence users' overall understanding of the entity's service performance. The materiality levels may differ for different types of service performance information. Factors that may affect the identification of appropriate levels include:

- The entity's service performance information, including the reporting policies and procedures.
- The quantity or the nature of the particular disclosure. In some cases, there are particular types of disclosures for which misstatements of lesser or greater amounts are acceptable. For example, the auditor may consider that it is appropriate to set a lower or greater materiality level for different types of performance measures reported.

A50. How the information is presented. For example, does the presentation draw attention to particular information. The auditor may be less tolerant of misstatement in information that is given the most prominence.

- 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.

Commented [MP79]: •AUASB recommended extending sources of information and adding additional examples: explain that these can include customer satisfaction surveys, Employee engagement surveys; and
•Stakeholder consultation — explain that this can include feedback, complaints, targeted interviews, multi-stakeholder workshops.

Make wording more generic as customers may not apply to NFP and PS.

Also added references to web and social media searches and reporting by similar entities and prior reporting by the entity.

Commented [MP80]: To remove focus on measurement? Is this a more appropriate word?

Commented [MP81]: Moved from requirement para as there is no shall statement.

Commented [MP82]: Re-ordered - moved up Not sure that these only relate to qualitative information - relevant for both?

Commented [MP83]: AUASB recommend extending qualitative statements to incorporate balance transparency, clarity, credibility and trust.

Sub-committee recommend possibly weaving in these words in separate guidance – not in the standard where there is already opposing views on the QCs and characteristics – adding further words will add to the problem.

Commented [MP84]: Consider merging - relate both to determining the level for quantitative information and whether there is a misstatement in descriptions, rather than one or the other?

Commented [MP85]: Covered above.

Commented [MP86]: Covered in previous para – remove unnecessary repetition.

Commented [MP87]: Consider removing – not adding anything?

Commented [MP88]: Consider merging with type of performance measure or description below?

Commented [MP89]: Not sure this example adds to the previous sentence?

(d) The importance of the activity to achieving the entity's service performance objectives. For example, whether the performance measures related to the primary purpose of the entity. The more important the activity, the less tolerance for misstatement.

Commented [MP90]: Consider this captures OAG's point on "the primary function or purpose - consider making explicit)

(e) The extent of interest shown in particular aspects of service performance by, for example, the legislature, funders, the media or the public and whether the 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 auditor should be less accepting of potentially misleading or inaccurate information.

(f) The type of performance measures and/or descriptions adopted, including the sensitivity of the information to error or the wording chosen to express a description. In some cases, there are particular types of disclosures for which misstatements of lesser or greater amounts are acceptable.

(g) The interaction between, and relative importance of, various components of the service performance information when it is made up of multiple components, such as information that includes numerous performance measures or relates to an activity that is financially significant. The auditor may be less tolerant of misstatement for information that is given the most prominence

(h) The economic, social, political and environmental effect of a project or an entity's work for example there is a high level of wider societal interest in it, particularly high levels of public sensitivity, or relate to activity that could be a significant risk to the public

Commented [MP91]: Consider making explicit link to OAG's recommendations re significant community interests or significant risk to the public

(i) Whether the information includes information about achieving a target or threshold, and the relationship of the actual performance to the target. For example, if the entity compares actual performance to a previously reported target, the auditor will be particularly diligent where a target has only just been achieved.

Commented [MP92]: Example raised by OAG staff

(j) Whether a misstatement is the result of an intentional act or is unintentional. For example, intentional attempts to mislead users may result in the auditor performing more detailed work.

(k) Whether a misstatement is significant having regard to the auditor's understanding of known previous communications to users.

(d)(l) 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.

A47. In determining materiality levels and factors, the auditor exercises professional judgement by considering qualitative and quantitative factors.

Commented [MP93]: The requirements distinguish levels for quantitative info and factors for qualitative info – this is less clear in the application material – and may in fact not be as clear cut as one or the other?

A48-A50. Qualitative factors may include The auditor is unlikely to be able to set an overall materiality level because there is unlikely to be a common unit of account. It is also unlikely that the auditor will be able to aggregate misstatements. However, this does not remove the need for the auditor to form a conclusion as to whether uncorrected misstatements are material individually or collectively as required by paragraph 46.:

Commented [MP94]: The OAG reads this as quantitative factors for determining a quantitative level? Or is it both? Consider merging with the above and clarifying that it could be both.

Commented [MP95]: Acknowledge need for separate guidance on each quantitative and qualitative materiality considerations – sub-committee recommendation is that this is dealt with separately from the standard.

- (a) ~~The number of persons or entities affected.~~
- (b) ~~The importance of the activity to achieving the entity's service performance objectives.~~
- (c) ~~The extent of interest shown in particular aspects of service performance by, for example, the legislature, funders, the media or the public.~~
- (d) ~~The type of performance measures and/or descriptions adopted.~~
- (e) ~~The interaction between, and relative importance of, various components of the service performance information when it is made up of multiple components, such as information that includes numerous performance measures.~~
- (f) ~~The economic, social, political and environmental effect of a project or an entity's work.~~
- (g) ~~The wording chosen with respect to service performance information that is expressed in narrative form.~~
- (h) ~~The characteristics of the presentation adopted for the service performance information.~~
- (i) ~~The nature of the misstatement.~~
- (j) ~~Whether a misstatement is the result of an intentional act or is unintentional.~~
- (k) ~~Whether a misstatement is significant having regard to the auditor's understanding of known previous communications to users.~~
- (l) ~~Whether a particular aspect of the service performance information is significant with regard to the nature, visibility and sensitivity of the information.~~

A49-A51. For historical financial information extracted from the audited financial statements, the engagement team may determine that the materiality level or levels used in the audit of the financial statements are acceptable for the purposes of the service performance information.

Identifying and Assessing Risks of Material Misstatement (Ref: Para. 34)

A52. ~~The auditor assesses the risk of material misstatement at the general purpose financial report level considering the links between the financial statement information and the service performance information in order to form an overall opinion as to whether the general purpose financial report is materially misstated.~~

Assertions about service performance and related disclosures

A53. ~~The auditor may use the assertions as described in paragraph A55 below or may express them differently provided all aspects described below have been covered. For example, the auditor may choose to combine the assertions about occurrence and attribution.~~

A54. ~~In the public sector, the entity may assert compliance with law or regulation, in addition to the assertions set out in paragraph A55 below.~~

A50-A55. ~~Assertions used by the auditor in considering the different types of potential~~

Commented [MP96]: Feedback from OAG staff was that it is unclear why this standard is reflecting the GPFR level. Does this help?

Commented [MP97]: Staples Rodway suggested reference to A128 may be useful – substance over form
First sentence is from ISA 315 (Revised) – this may be a way to address concerns related to separating it out attribution as a separate assertion or combining it with occurrence?

SSPWG recommend that this emphasis on the may respond to concerns raised by some submissions related to attribution as an assertion

Commented [MP98]: Staples Rodway recommend including assertions in the requirements rather than in the application material. The need for the may was agreed by the SSPWG – allows flexibility by the auditor to determine what assertions apply to the circumstances

misstatements of service performance information that may occur may fall into the following categories:

- (a) Occurrence – service performance that has been reported has occurred.
- (b) Attributable to the entity – the service performance reported by the entity includes only service performance that the entity has evidence to support its involvement with.
- (c) Completeness – all significant service performance that should have been reported has been included in the service performance information.
- (d) Accuracy – service performance has been reported, measured and described appropriately and is consistent with financial statement information.
- (e) Cut-off – the service performance has been reported in the correct period.
- (f) Presentation – service performance is appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable.
- ~~(g) Consistency – service performance information is consistent with the prior period, or changes are justified and are appropriately disclosed.~~

Commented [MP99]: OAG recommendation is to combine occurrence and attribution. Refer to issues paper. SSPWG recommend retaining – given that the auditor has flexibility as added in A52.

Commented [MP100]: SSPWG recommend that this incorporates CAANZ's comment requesting the assertion of classification to be added. SSPWG do not recommend bringing that back as it could be misinterpreted as relating to classification between outputs/impacts and outcomes which have been dropped from the accounting standard.

Commented [MP101]: Based on feedback received, SSPWG recommend removing as an assertion – covered in the requirements of PBE FRS 48 and in para 28 of the amended standard.

The Auditor's Responses to Assessed Risks (Ref: Para. 35–36)

~~A51-A56.~~ Procedures that may be performed include:

- (a) Testing and evaluating the systems, processes and controls that capture, record, analyse and monitor the service performance information;
- (b) Performing analytical review procedures;
- (c) Performing other substantive or re-performance tests.

~~A52-A57.~~ The quality of the systems used to record and control results, and the nature and quality of evidence available, may have an effect on the mix of procedures used. For instance, a weak recording or control system may force the auditor to use primarily substantive procedures. In rare cases, the absence of controls may make it impossible to obtain sufficient appropriate audit evidence.

~~A53-A58.~~ In some instances, there may not be control activities that could be identified by the auditor, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the auditor to perform audit procedures that are primarily substantive procedures. In rare cases, the absence of controls may make it impossible to obtain sufficient appropriate audit evidence.

Audit Evidence (Ref: Para. 37)

~~A54-A59.~~ Making correlations with audit evidence obtained in the audit of the financial statements, as far as possible, maximises the effectiveness of the audit of the general purpose financial report.

~~A55-A60.~~ The mix of procedures to be performed may vary compared with the mix used in regard to the financial information but does not alter the need to obtain sufficient appropriate audit evidence.

Written Representations (Ref: Para. 42)

~~A56-A61.~~ The representation letter for the audit of the general purpose financial report includes references to the service performance information. An example of an illustrative representation letter for the audit of the general purpose financial report that includes service performance information is set out in ~~the Appendix of ISA (NZ) 5805.~~

Using the Work of an Auditor's Expert (Ref: Para. 43)

~~A57-A62.~~ Expertise in a field other than accounting or auditing may be necessary as a result of information included in the service performance information. Expertise in a field other than accounting or auditing may include expertise in relation to such matters as:

- The measurement of complex performance measures, for example:
 - Climate change calculations;
 - Specific scientific measurements;
 - Social impact measurement
 - Human rights performance
 - People and diversity disclosure
- Assertions made about the entity's performance, for example, when reporting on the difference that the entity has made;
- Conformity assessments, ecolabelling and certification programmes.

Commented [MP102]: AUASB suggested some additional examples?

Forming an Opinion and Reporting (Ref: Para. 44–47)

~~A58-A63.~~ The auditor's conclusion on the service performance information covers both:

- (a) Whether the ~~entity's selection of service performance to report and the related related reporting policies and procedures compilation methods used~~ are suitable so as to result in service performance information in accordance with the applicable financial reporting framework ~~and are suitable~~; and
- (b) Whether the service performance information represents the underlying service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation.

Commented [MP103]: Consider deleting – repeats two step process described in the reporting requirements (para 51)

~~A59-A64.~~ Those charged with governance will make a number of judgements about the selection, measurement, description, aggregation and presentation of information reported. In considering the qualitative characteristics described in the applicable financial reporting framework, the auditor may become aware of bias. The auditor may conclude that the cumulative effect of the lack of neutrality, together with the effect of uncorrected misstatements causes the service performance information to be materially misstated.

~~A60-A65.~~ The disclosure of the judgements made in selecting and aggregating service performance information is particularly important so that users can understand how particular matters are reported ~~may be treated~~ in the service performance information.

Report Content (Ref: Para. 48–51)

~~A61-A66.~~ The auditor's report on the general purpose financial report includes references to

the service performance information. An illustrative report that includes references to the service performance information is set out in ~~the Appendix of ISA (NZ) 700 (Revised) 6.~~

~~A67. The auditor may assert compliance with the International Standards on Auditing (New Zealand) (ISAs (NZ)) but may not assert compliance with the International Standards on Auditing (ISAs) where the auditor's report refers to service performance information.~~

~~A62-A68. The elements required to be included in an auditor's report by ISA (NZ) 700 (Revised) are those elements to be included in a short-form report. This NZ AS requires the auditor's report to include at least all elements required by ISA (NZ) 700 (Revised) and this NZ AS. Inclusion of these elements will result in a short-form auditor's report. However, this NZ AS allows for flexibility and an auditor may include additional information, as described in paragraphs A684-A695, resulting in a long-form report.~~

~~A63. The auditor's report refers to the entity's reporting policies so that the intended users can understand the basis for the auditor's opinion. The auditor's report may refer to the reporting policies (e.g., as [the reporting policies on page xx of the report or within the service performance information]) if the criteria are included and described in the service performance information or identify the reporting policies where otherwise available from a readily accessible source (e.g., as [section xxx of applicable legislation or name of externally developed and well-established performance framework]).~~

~~A64-A69. The auditor's report may describe additional details relevant to the audit of the service performance information that are intended to meet the information needs of users but not to affect the auditor's conclusion. This information may be required by legislation or agreed in the terms of the engagement to meet the needs of users. If the report includes other information it is a long-form report as the information is additional to the basic elements required in paragraph 5149. Other informationA long-form report should not be worded in a manner that it may be regarded as a modification of the auditor's opinion. The auditor's report may describe, for example:~~

- The underlying facts and information about the entity's reporting ~~policies and procedures~~ process (e.g., the maturity of the entity's reporting ~~policies and procedures~~ process compared to others in the industry).
- The source of the ~~reporting policies and procedures~~ compilation methods, and whether they are externally established (e.g., established in section xxx of applicable legislation or externally established performance frameworks), ~~and if not, a description of why the entity's reporting policies and procedures are considered suitable.~~
- Any significant interpretations made in selecting what service performance to report on or applying the entity's compilation methods ~~or applying the entity's reporting policies and procedures~~ in the circumstances.
- Whether there have been any changes in the entity's ~~reporting policies or procedures~~ compilation methods (e.g., changes in the ~~measurement methods~~ performance measures used).
- Findings or recommendations ~~related to the evaluation of the suitability of the entity's reporting policies and procedures for improvements to the service performance information.~~

Commented [MP104]: Do we need to expand on this?

Commented [MP105]: Propose to include a definition of a long-form report – suggest deleting references to short form as otherwise will need a definition too?

Commented [MP106]: There is a requirement for the auditor to evaluate whether the entity has described its basis of prep so that the users can understand the basis of prep. If this is done then there is no need for the auditor's report to make the criteria available but the report may still cross refer to those reporting policies. Consider deleting first sentence and retaining the rest – illustrate? Or is this adequately covered in para below – second bullet point? Consider combining.

Commented [MP107]: Staples Rodway opposed to including information as to why the auditor considers that the SPI criteria are suitable. May risk giving the impression that the auditor has a role to play in selecting the criteria?
Covered by second last bullet point?

- Any other matters the auditor considers necessary to meet the needs of users.

Formatted: Normal, No bullets or numbering

~~A65-A70.~~ The auditor is encouraged to report their findings or recommendations where the auditor considers the information would enhance transparency and assist the user to understand the level of maturity that the entity has achieved in its reporting. -Reporting of findings and recommendations may promote and also highlight to the user improvements in reporting over time.

Modifications to the Opinion in the Independent Auditor's Report (Ref: Para. 31, 53)

~~A66-A71.~~ A misstatement of the service performance information may arise in relation to:

- The suitability of the ~~selected entity's reporting policies and procedures~~ service performance and related compilation methods;
- The application of the ~~reporting policies or procedures~~ compilation methods; ~~or~~
- Inadequate disclosure of judgements made, where applicable; or
- Incomplete disclosures that do not include all disclosures required by the applicable financial reporting framework or do not achieve fair presentation of the service performance information.

~~A67-A72.~~ In relation to the suitability of the ~~selected reporting policies and procedures~~ service performance and related compilation methods, material misstatements of the service performance information may arise, for example, when:

- The entity's ~~reporting policies and procedures~~ compilation methods are not consistent with the principles in the applicable financial reporting framework.
- The entity has not appropriately applied the qualitative characteristics, in accordance with the applicable financial reporting framework and therefore the service performance information does not enable a meaningful assessment of performance to be made by intended users.

~~A68-A73.~~ The auditor may determine that a material misstatement exists in ~~relation to the suitability of the~~ reporting policies and procedures ~~service performance information~~:

- When, in the auditor's professional judgement, the ~~reporting policies and procedures~~ compilation methods used are likely to mislead the intended users. A qualified opinion or adverse opinion would be appropriate in the circumstances depending on how material and pervasive the matter is.
- In other cases, a qualified opinion or a disclaimer of opinion would be appropriate depending on, in the auditor's professional judgement, how material and pervasive the matter is.

~~A69-A74.~~ In relation to the application of the ~~reporting policies and procedures~~ compilation methods, material misstatements of the service performance information may arise:

- Due to a misapplication of the ~~reporting policies and procedures~~ compilation methods (e.g., an unintentional error in application). A qualified opinion may be appropriate in the circumstances where there is a material misstatement that is not pervasive.

Commented [MP108]: OAG wants guidance on whether a misstatement in one performance measure will result in a modified opinion?

depending on how material the matter is

- (b) When the reporting ~~policies and procedures~~ compilation methods are not applied consistently to the service performance, or not applied consistently between periods.

~~A70-A75.~~ In relation to the appropriateness or adequacy of disclosures in the general purpose financial report, material misstatements may arise when:

- (a) The general purpose financial report does not provide all disclosures required by the applicable financial reporting framework.
- (b) The general purpose financial report does not provide all disclosures necessary to achieve fair presentation of the service performance information.

~~A71-A76.~~ Appendix 4 includes illustrative auditor's reports with a qualified, adverse or disclaimer of opinion with respect to the service performance information.

~~A72-A77.~~ In many instances, a modification with respect to the service performance information will have no impact on the opinion on the financial statements.

Other Information (Ref: Para. 560)

~~A73-A78.~~ Appendix 1 illustrates what constitutes other information for the purposes of this NZ AS.

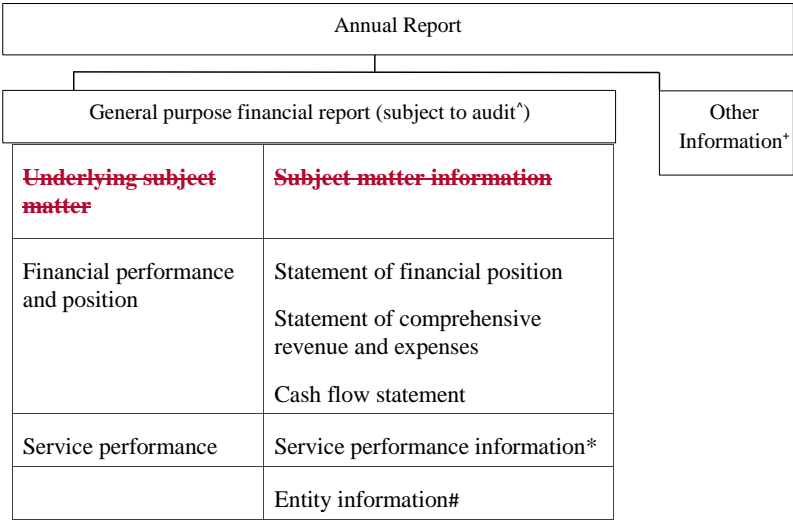
~~A74-A79.~~ Other information, whether financial or non-financial information (other than the financial statement information and service performance information) may be included in an annual report. The auditor's opinion does not cover the other information. The auditor's responsibilities regarding other information within the annual report, but located outside of the general purpose financial report as defined in this NZ AS, is determined by ISA (NZ) 720 (Revised) and by this NZ AS.

Commented [MP109]: Do we need to add more about the impact on the opinion in this para and the para below?

Appendix 1

(Ref: Para. 7(a), 8, A35, A73)

What Constitutes the General Purpose Financial Report



[^] Some entities are required by law or regulation to have the general purpose financial report audited or reviewed. Other entities may elect to include service performance information within the scope of the audit. Where the service performance information is not included within the scope of the audit, this NZ AS does not apply.

^{*} Service performance information may be included in the general purpose financial report by cross-reference where the applicable financial reporting framework permits disclosures to be cross referenced.

[#] Where entity information is required to be included in the general purpose financial report by the applicable financial reporting framework.

⁺ Other information may include forward looking information, other historical information and management discussion and analysis. ISA (NZ) 720 (Revised) addresses the auditor’s responsibilities with respect to other information. ISA (NZ) 720 (Revised) applies to the service performance information when service performance information is not included within the scope of the audit.

Appendix 2

(Ref: Para. 7(e)22)

Understanding the entity’s reporting process and evaluating the suitability of the compilation methods used

Commented [MP110]: April meeting – requested flowchart of the evaluation of the QCs and characteristics
Suggest replace this appendix – could be illustrated in examples developed in separate guidance? Feedback from OAG Staff suggests that this appendix has not provided the clarification it was developed to provide.

	<u>Applicable financial reporting framework</u>	<u>Preparer</u>	<u>Auditor</u>
<u>Financial statements</u>	Detailed recognition and measurement requirements established in PBE Standards	Apply the recognition and measurement requirements and disclose the accounting policies applied	The recognition and measurement requirements from PBE Standards are suitable
<u>Service performance information</u>	Principles require the preparer to apply the qualitative characteristics and pervasive constraints	Develop a reporting process and related compilation methods	Auditor evaluates whether the selected service performance and related compilation methods used are suitable

<u>Is the selected service performance and the compilation methods used suitable? (Ref: Para 22) ⁴¹</u>	<u>These may be articulated differently in the applicable financial reporting framework (Ref: Para. A29)⁴²</u>
<u>Relevance</u>	<u>Relevance.</u> <u>Includes timeliness.</u>
<u>Reliability</u>	<u>Includes verifiability</u>
<u>Completeness</u> <u>Neutrality</u>	<u>Faithful representation including:</u> <u>Completeness</u> <u>Neutrality</u>
<u>Understandability</u>	<u>Understandability and comparability</u>

⁴¹ Paragraph 44, EG Au1A, *Framework for Assurance Engagements*

⁴² The qualitative characteristics are described in PBE FRS 48 paragraph 9.

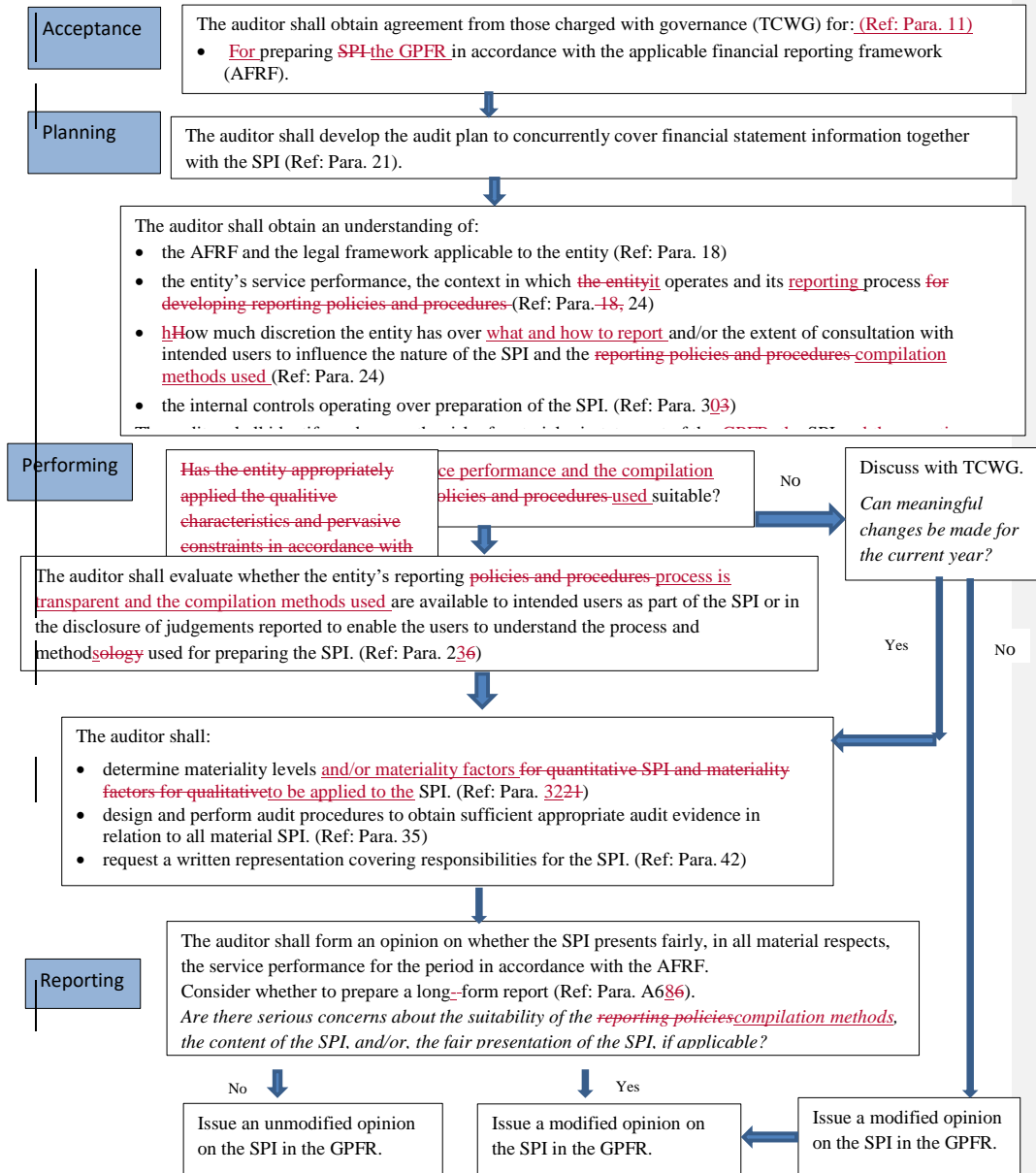
Examples of an Entity's Reporting Policies and Procedures

Tier reporting under	Financial reporting framework establishes:	How the entity implements the principles	The auditor evaluates the suitability of the entity's reporting policies and procedures
Tier 1 public sector entity	<ul style="list-style-type: none"> • The objective of service performance reporting • Reporting principles/ qualitative characteristics • Elements of service performance information to report • Flexibility for selection, measurement, aggregation and presentation 	<p>External requirements or judgement exercised by the entity to determine the basis by which service performance may be assessed:</p> <ul style="list-style-type: none"> • Application of materiality • What service performance to report on • Methodologies for performance measures and/or descriptions appropriate to the circumstances • Presentation method 	<p>Apply professional judgement to evaluate:</p> <ul style="list-style-type: none"> • Relevance • Completeness • Reliability • Neutrality • Understandability
Tier 3 not-for-profit	<ul style="list-style-type: none"> • Describe the outcomes • Describe and quantify to the extent practicable the outputs delivered for the current period 	<p>For example, in the context of a Parent Network registered charity:</p> <ul style="list-style-type: none"> — Empower informed decisions — Number of courses and average number of participants 	<p>The auditor evaluates whether the entity is reporting against its mission statement and targets established by funders</p>

Appendix 3

Flowchart of the Audit of Service Performance Information (SPI) included in the General Purpose Financial Report (GPFR)

Commented [MP111]: Changes not marked so you can view the flowchart



Appendix 4

(Ref: Para. A12)

Example of an Audit Engagement Letter for an Audit of the General Purpose Financial Report Including Service Performance Information Illustrative Engagement Letter Including Service Performance Information⁴³

The following is an example of an audit engagement letter for an audit of the general purpose financial report, including service performance information prepared in accordance with ~~Public Benefit Standards~~ the applicable financial reporting framework issued by the New Zealand Accounting Standards Board. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in the ISAs (NZ) ~~and including NZ AS XX~~ this NZ AS 1. It will need to be varied according to individual requirements and circumstances.

To the Chairperson:⁴⁴

[The objective and scope of the audit]

You have requested that we audit the [general purpose financial report/performance report] of ABC [Entity], which comprise ~~the~~

~~financial statements, including~~ the statement of financial position as at December 31, 20X1, and the [entity information], [statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity], statement of cash flows and [service performance information/statement of service performance] for the year then ended, and notes to the financial statements, including a summary of significant accounting policies ; ~~and~~

~~service performance information.~~

We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the [general purpose financial report/performance report] as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) ~~and New Zealand Auditing Standard (NZ AS) XX The Audit of Service Performance Information~~ will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the

Commented [MP112]: Moved – previously proposed to amend ISA (NZ) 220 – recommend including in this standard based on feedback received.

Commented [MP113]: Consider covering Tier1/2 and tier 3 in one example – using italics so auditor must select appropriate contents?

Commented [MP114]: ED requires the words "service performance information" – not sure that the Board intended the words to be reflected here? But does not make sense to illustrate differently? Possibly remove the requirements that repeat the ISA (NZ) 700 wording where there is no difference to the words in 700, even though in this case the GPFR includes additional information – is it enough for that to be included in the description in the intro para?

⁴³—The auditor is required to apply the ISAs (NZ) and NZ AS XX where the auditor is engaged to audit the general purpose financial report, including the service performance information.

⁴⁴ The addressees and references in the letter would be those appropriate in the circumstances of the engagement. It is important to refer to the appropriate persons – refer to ISA (NZ) 210 paragraph A22.

decisions of users taken on the basis of this [general purpose financial report/performance report].

[The responsibilities of the auditor]

We will conduct our audit of the [financial statements/general purpose financial report/performance report] in accordance with ISAs (NZ) ~~and the audit of the service performance information in accordance with NZ AS XX and the ISAs (NZ)~~. Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the [general purpose financial report/performance report], whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the [general purpose financial report/performance report] that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Understand the reporting process applied by the entity to select what service performance to report on and the compilation methods adopted to report its service performance;
- Evaluate whether the selected service performance and the related compilation methods used are suitable so as to result in service performance information that is in accordance with the [Public Benefit Entity Standards];
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the general purpose financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity] to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the [general purpose financial report/performance report], including the disclosures, and whether the [general purpose financial report/performance report] represent the underlying transactions, ~~and events and~~ service performance in a manner that achieves fair presentation.
- The consistency of the information reported in the financial statements and the service performance information.

Commented [MP115]: How much emphasis to place on SPI?
Combine or separate – ensure consistent with the requirements

~~[Service performance information/The statement of service performance] includes non financial information that is both quantitative and qualitative in nature. The preparation of the service performance information requires the use of judgement. The entity adopts reporting reporting process specific to its circumstances, using the principles established in [the applicable financial reporting framework]. As part of the audit of the [service performance information/statement of service performance] we evaluate:~~

- ~~• Whether the entity's reporting policies and procedures are in accordance with the Public Benefit Entity Standards and are suitable;~~
- ~~• The overall presentation, structure and content of the service performance information and whether the service performance information represents the underlying service performance in accordance with the applicable financial reporting framework, including its fair presentation;~~
- ~~• The consistency of the information reported in the financial statements and the service performance information.~~

Commented [MP116]: Consider combining with the above?
This is not reflected in the requirements

Commented [MP117]: Moved above

Commented [MP118]: Covered in last bullet point above

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (NZ) ~~and NZ AS XX.~~

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

Our audit 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 [general purpose financial report/performance report] in accordance with [Public Benefit Entity Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)];
- (b) To follow a reporting process and adopt compilation methods that are suitable in order to prepare service performance information in accordance with ~~For such reporting policies and procedures as those charged with governance determine are necessary to implement [Public Benefit Entity Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)], that are suitable in the context of the [entity];~~
- (c) For such internal control as [they] determine is necessary to enable the preparation of the [general purpose financial report/performance report] ~~financial report~~ that is free from material misstatement, whether due to fraud or error; and
- (d) 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 [general purpose financial report/performance report] ~~financial report~~ such as records, documentation and other matters;
 - (ii) Additional information that we may request from [management or the directors] for the purpose of the audit; and
 - (iii) Unrestricted access to persons within the entity from whom we determine it necessary

to obtain audit evidence.

As part of our audit process, we will request from [those charged with governance], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

[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 auditor's report.]

The form and content of our report may need to be amended in the light of our audit findings [and may be in long-form, including findings or recommendations related to why we consider that the entity's service performance criteria—information and compilation methods used are suitable, findings or recommendations].

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the general purpose financial report including our respective responsibilities.

[Governing body]

Acknowledged and agreed on behalf of the [Governing body] by

(signed)

.....

Name and Title

Date

Appendix 5

(Ref: Para. A60)

Commented [MP119]: Moved into the domestic standard**Illustrative Representation Letter (including service performance information)****Illustrative Representation Letter**

The following illustrative letter includes written representations that are required by this standard and other ISAs (NZ) ~~and New Zealand Auditing Standard XX~~. It is assumed in this illustration that the applicable financial reporting framework is Public Benefit Entity Standards ~~a fair presentation framework issued by the New Zealand Accounting Standards Board~~, 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.

Commented [MP120]: Consider making more generic to apply across tier 1-3?

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the [general purpose financial report/performance report] ~~financial report~~ of ABC Entity for the year ended December 31, 20XX which comprise the statement of financial position as at December 31, 20X1, and the [entity information], [statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity], statement of cash flows and [service performance information/statement of service performance] for the year then ended, and notes to the financial statements, including a summary of significant accounting policies ~~financial statements and service performance information~~⁴⁵ for the purpose of expressing an opinion as to whether the [general purpose financial report/performance report] ~~financial report~~ complies with [Public Benefit Entity (PBE) Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] and gives a true and fair view of the financial position of ABC [entity] as at December 31, 20XX and of the [entity information], results of its operations, ~~and its cash flows and its service performance~~ for the year then ended ~~and the service performance information for the year then ended~~.

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):*

[General Purposed Financial Report/Performance Report]

We have fulfilled our responsibilities on behalf of [the entity], as set out in the terms of the audit engagement dated [insert date], for:

- ~~The preparation, and fair presentation of the financial statements and service performance information~~ [general purpose financial report/Performance Report] in accordance with [PBE Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] issued by the New Zealand Accounting Standards Board.

⁴⁵ Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor's report.

- ~~The reporting process and compilation methods used that are suitable in order to prepare service performance information. The reporting policies and procedures adopted or developed by the entity to implement in accordance with [PBE Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] for reporting the entity’s service performance, are in accordance with PBE Standards and are suitable in the context of the [entity]. (NZ AS 1xx)~~
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. (ISA (NZ) 540)
- Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with PBE Standards. (ISA (NZ) 550)
- All events subsequent to the date of the financial statements which require adjustment or disclosure have been adjusted or disclosed. (ISA (NZ) 560)
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate or collectively, to the [general purpose financial report/performance report] as a whole. A list of the uncorrected misstatements is attached to the representation letter. (ISA (NZ) 450)
- [Any other matters that the auditor may consider appropriate ~~(see paragraph A10 of this ISA (NZ)).~~]

Information Provided

- We have provided you with⁴⁶:
 - Access to all information of which we are aware that is relevant to the preparation of the [general purpose financial report/performance report] such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the [general purpose financial report/performance report] may be materially misstated as a result of fraud. (ISA (NZ) 240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or

⁴⁶ If the auditor has included other matters relating to the responsibilities of those charged with governance in the audit engagement letter in accordance with ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, consideration may be given to including these matters in the written representations from those charged with governance.

- Others where the fraud could have a material effect on the [general purpose financial report/performance report]. (ISA (NZ) 240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's [general purpose financial report/performance report] communicated by employees, former employees, analysts, regulators or others. (ISA (NZ) 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing a [general purpose financial report/performance report]. (ISA (NZ) 250)
- 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. (ISA (NZ) 550)
- We will provide the final version of the documents determined to comprise the annual report to the auditor when available, and prior to its issuance by the entity.⁴⁷ (ISA (NZ) 720 (Revised))
- [Any other matters that the auditor may consider necessary—~~(see paragraph A11 of this ISA (NZ)).~~]

Governing body member

Governing body member

⁴⁷ This is only required when the other information is not available until after the date of the auditor's report.

Appendix 6

Commented [MP121]: Moved

(Ref: Para. A65)

Illustration of Independent Auditor's Report on the general purpose financial report, including service performance information

~~[NZ] Illustration 3A—Auditor's Report on the Financial Report of a Public Benefit Entity that is not a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a Fair Presentation Framework (e.g., Public Benefit Entity Standards)~~

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a general purpose financial report/performance report ~~comprising of a complete set of financial statements and service performance information~~ of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework⁴⁸. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).
- The general purpose financial report/performance report is prepared by management of the entity in accordance with ~~Public Benefit Entity Standards~~ (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the general purpose financial report/performance report in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To Appropriate Addressee

⁴⁸ The general purpose financial report may be referred to as a performance report and include entity information, according to the requirements of the applicable financial reporting framework ~~what financial reporting requirements have been applied to prepare the general purpose financial report.~~

Opinion

We have audited the [general purpose financial report/performance report] of ABC [entity], which comprise ~~the [financial statements on pages x to xx and service performance information on pages x to xx]. The complete set of financial statements comprise~~ the statement of financial position as at December 31, 20X1, and the [entity information]. [statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity], ~~and~~ statement of cash flows ~~and [service performance information/statement of service performance]~~ for the year then ended, and notes to the financial statements, including a summary of significant accounting policies [on pages x to xx].

In our opinion ~~the~~ accompanying [general purpose financial report/performance report] presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the [entity] as at December 31, 20X1, and (of) its [entity information]. financial performance, and its cash flows and service performance for the year then ended; ~~and the service performance for the year then ended in~~ accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] issued by the New Zealand Accounting Standards Board.

[For a long-form report, include a separate section, under an appropriate heading, for example:

- Underlying facts and information about the entity's reporting process (e.g., the maturity of the entity's reporting process compared to others in the industry).
- ~~Description of the reporting policies and procedures, including~~ The source of the reporting policies and procedures, compilation methods, and whether they are externally established.
- ~~Why the auditor considers that the reporting policies and procedures are suitable.~~
- Any significant interpretations made in selecting what service performance to report on or applying the entity's compilation methods in the circumstances.
- Whether there have been any changes in the entity's compilation methods (e.g., changes in the performance measures used).
- Findings or recommendations for improvements to the ~~reporting policies and procedures or~~ service performance information.
- Any other matters the auditor considers necessary to meet the needs of users.]

Basis for Opinion

We conducted our audit of the [general purpose financial statements-report/performance report] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) ~~and the audit of the service performance information, in accordance with New Zealand Auditing Standard [XX] [The Audit of Service Performance Information and the ISAs (NZ)].~~ Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Commented [MP122]: Removed sub-bullets to further streamline opinion

Commented [MP123]: Consider need for distinction – issue to consider

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [for another title if appropriate such as “Information other than the general purpose financial report/performance report and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 1 in Appendix 2 of ISA (NZ) 720 (Revised).]

Responsibilities of Those Charged with Governance for the General Purpose Financial Report/Performance Report

Those charged with governance are responsible on behalf of the [entity] for:

- (a) the preparation and fair presentation of the ~~financial statements and service performance information~~ general purpose financial report/performance report in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] issued by the New Zealand Accounting Standards Board, and
- (b) ~~the for such reporting policies and procedures as those charged with governance determine are necessary to implement reporting process followed and the compilation methods adopted that are suitable in order to prepare service performance information in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] that are suitable in the context of the [entity];~~
- (c) for such internal control as those charged with governance determine is necessary to enable the preparation of the general purpose financial report/performance report ~~financial statements and service performance information~~ that is free from material misstatement, whether due to fraud or ~~error~~.

In preparing the general purpose financial report/performance report ~~financial report~~, those charged with governance are responsible for assessing the [entity’s] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the [entity] or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the General Purpose Financial Report/Performance Report

Our objectives are to obtain reasonable assurance about whether the general purpose financial report/performance report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate or collectively, they could

Commented [MP124]: CAANZ comment – no reference to allowing auditor access to all records as described in the requirements for the engagement terms. This is not included in ISA 700 illustrations for any audit report, do not recommend adding only for SPI.

reasonably be expected to influence the decisions of users taken on the basis of this [general purpose financial report/performance report].

A further description of the auditor's responsibilities for the audit of the [general purpose financial report/performance report] is located at the XRB's website at <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/>.

Paragraph 41(b) of ISA (NZ) 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report.

Paragraph 41(c) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A57.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/>.

As part of an audit in accordance with ISAs (NZ) ~~and NZ AS XX~~, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the [general purpose financial report/performance report], whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ~~Company~~ [Entity's] internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate whether the selected service performance and the related compilation methods adopted are suitable so as to result in service performance information that is in accordance with the [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)];
- The overall presentation, structure and content of the general purpose financial report and whether the general purpose financial report represents the underlying transactions, events and service performance in accordance with Public Benefit Entity Standards in a manner that achieves fair presentation;
- The consistency of the information reported in the financial statements and the service performance information.
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in

the [general purpose financial report/performance report] or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company[entity] to cease to continue as a going concern.

~~Service performance information includes non financial information that is both quantitative and qualitative in nature. The preparation of the service performance information requires the use of judgement. The entity develops its own service performance criteria, specific to its circumstances, using the principles established in the Public Benefit Entity Standards. As part of an audit in accordance with New Zealand Auditing Standard (NZ AS XX), we evaluate:~~

- ~~• Whether the entity's reporting policies and procedures are in accordance with the Public Benefit Entity Standards and are suitable;~~
- ~~• The overall presentation, structure and content of the service performance information and whether the service performance information represents the underlying service performance in accordance with Public Benefit Entity Standards in a manner that achieves fair presentation;~~
- ~~• The consistency of the information reported in the financial statements and the service performance information.~~

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Commented [MP125]: Consider deleting and merging above – consistent with engagement letter

Appendix 74

(Ref: Para. A75+)

Illustrations of Auditor's Reports with Modifications to the Opinion with Respect to the Service Performance Information

- Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information.
- Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information.
- Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information.
- Illustration 4: An auditor's report containing a qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements.
- Illustration 5: An auditor's report containing a disclaimer of opinion due to the loss of records about multiple elements of the general purpose financial report.

Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the [general purpose financial report/performance report] of ABC [entity], which comprise ~~the [financial statements and service performance information]. The complete set of financial statements comprise~~ the statement of financial position as at December 31, 20X1, and the [entity information], [statement of financial performance]/statement of comprehensive revenue and expense, statement of changes in net assets/equity] ~~and~~ statement of cash flows and [service performance information/statement of service performance] for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying [general purpose financial report/performance report] on pages x to xx presents fairly, in all material respects, (or gives a true and fair view of) the financial position of the [entity] as at December 31, 20X1, and (of) its [entity information], financial performance and its cash flows for the year then ended in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] issued by the New Zealand Accounting Standards Board.

Qualified Opinion on the Service Performance Information

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report the accompanying [general purpose financial report/performance report] presents fairly, in all material respects (or gives a true and fair view of) the service performance of the [entity] [on pages x to xx] for the year ended December 31, 20X1 in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion on the Service Performance Information

[As reported in the service performance information on page xx, the entity has identified its service performance as *[describe improvements reported or description of the difference that the entity has made]* and measured this performance by [list performance measures and/or descriptions reported] to report its service performance. The entity has not been able to provide evidence of its role in those particular improvements ~~that is verifiable~~ and therefore should not have reported this improvement.]

We conducted our audit of the [general purpose financial ~~statements-report/performance report~~] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) ~~and the audit of the service performance information, in accordance with New Zealand Auditing Standard XX The Audit of Service Performance Information and the ISAs (NZ).~~ Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued

Commented [MP126]: Can the auditors of tier 3 still say this?

Commented [MP127]: AUASB comment notes that verify is used as linked to verifiability in the PBE Conceptual framework – this is not applied or used in assurance framework so consider rewording

by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the General Purpose Financial Report/Performance Report and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the General Purpose Financial Report/Performance Report

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the General Purpose Financial Report/Performance Report

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the [general purpose financial report/performance report] of ABC [entity], which comprise ~~the [financial statements and service performance information]. The complete set of financial statements comprise~~ the statement of financial position as at December 31, 20X1, and the [entity information], [statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity] and statement of cash flows and [service performance information/statement of service performance] for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying [general purpose financial report/performance report]~~financial statements on pages x to xx~~ presents fairly, in all material respects, (or gives a true and fair view of) the financial position of the [entity] as at December 31, 20X1, and (of) its [entity information], financial performance and its cash flows for the year then ended in accordance with [Public Benefit Entity Standards Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] issued by the New Zealand Accounting Standards Board.

Adverse Opinion on the Service Performance Information

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on the Service Performance Information* section of our report the accompanying [general purpose financial report/performance report] does not present fairly (or does not give a true and fair view of) the service performance of the [entity] [on pages x to xx] for the year ended December 31, 20X1 in accordance with [Public Benefit Entity Standards Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] issued by the New Zealand Accounting Standards Board.

Basis for Adverse Opinion on the Service Performance Information

[As reported in the service performance information on pages ..., the entity has identified its service performance to include [list appropriate goods and services] and measured and evaluated this performance with reference to [describe performance measures and/or descriptions reported] to report its service performance. – We do not consider that these performance measures will enable a meaningful assessment of the service performance of the entity for the year ended December 31, 20X1 to be made. Had the entity identified more meaningful performance measures, the service performance information would have been materially affected, reporting performance measures including xxx and linking to its responsibility for yyyy.]

We conducted our audit of the [general purpose financial statements-report/performance report] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ))~~and the audit of the service performance information, in accordance with New Zealand Auditing Standard XX The Audit of Service Performance Information and the ISAs (NZ).~~ Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial*

Report/Performance Report section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the *general purpose financial report/performance report* and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 7 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 7 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the *General Purpose Financial Report/Performance Report*

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the *General Purpose Financial Report/Performance Report*

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the [general purpose financial report/performance report] of ABC [entity], which comprise ~~the [financial statements and service performance information]. The complete set of financial statements comprise~~ the statement of financial position as at December 31, 20X1, and the [entity information], [statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity], and statement of cash flows and [service performance information/statement of service performance] for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying [general purpose financial report/performance report] ~~financial statements~~ on pages x to xx presents fairly, in all material respects, (or gives a true and fair view of) the financial position of the [entity] as at December 31, 20X1, and (of) its [entity information], financial performance and its cash flows for the year then ended in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] issued by the New Zealand Accounting Standards Board.

Qualified Opinion on the Service Performance Information

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report the accompanying [general purpose financial report/performance report] presents fairly, in all material respects (or gives a true and fair view of) the service performance of the [entity] [on pages x to xx] for the year ended December 31, 20X1 in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion on the Service Performance Information

[Some significant performance measures of the entity, rely on information from third parties, such as (give examples). The entity's control over much of this information is limited, and there are no practical audit procedures to determine the effect of this limited control. For example, *[describe performance measure and explain where information comes from that we are unable to independently test.]*]

We conducted our audit of the [general purpose financial statements-report/performance report] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) ~~and the audit of the service performance information, in accordance with New Zealand Auditing Standard XX The Audit of Service Performance Information and the ISAs (NZ).~~ Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the General Purpose Financial Report* section of our report. We are independent of the [entity] in accordance with Professional and

Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the general purpose financial report/performance report and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information]

Responsibilities of Those Charged with Governance for the General Purpose Financial Report/Performance Report

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the General Purpose Financial Report/Performance Report

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 4: Qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Qualified Opinion on the [General Purpose Financial Report/Performance Report/

We have audited the [general purpose financial report/performance report] of ABC [entity], which comprise ~~the [financial statements on pages x to xx and service performance information on pages x to xx]. The complete set of financial statements comprise~~ the statement of financial position as at December 31, 20X1, and the [entity information], [statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity], ~~and~~ statement of cash flows ~~and [service performance information/statement of service performance]~~ for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report the accompanying [general purpose financial report/performance report] presents fairly, in all material respects (or *gives a true and fair view of*) the financial position of the [entity] as at December 31, 20X1, and (of) its financial performance, ~~and its~~ cash flows ~~and service performance information~~ for the year then ended; ~~and the service performance for the year then ended~~ in accordance with [Public Benefit Entity Standards/*Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

Commented [MP128]: Consider removing bullets in this example too – as the qualification is over the whole report

Basis for Qualified Opinion

[As outlined on page xx of the [general purpose financial report/performance report], [entity] has not applied the requirements of the [Public Benefit Entity Standards/*Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] to its grant expenditure. We have been unable to obtain sufficient audit 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 expenses]; 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.]

We conducted our audit of the [general purpose financial ~~statements-report/performance report~~] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) ~~and the audit of the service performance information, in accordance with New Zealand Auditing Standard XX *The Audit of Service Performance Information* and the ISAs (NZ).~~ Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the general purpose financial report/performance report and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the General Purpose Financial Report/Performance Report

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the General Purpose Financial Report/Performance Report

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 5: Disclaimer of opinion due to the loss of records about multiple elements of the general purpose financial report/performance report

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Disclaimer of Opinion

We were engaged to audit the [general purpose financial report/performance report] of ABC [entity], which comprise the ~~[financial statements on pages x to xx and service performance information on pages x to xx]~~. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, and the [entity information], [statement of financial performance]/statement of comprehensive revenue and expense, statement of changes in net assets/equity], ~~and~~ statement of cash flows and [service performance information/statement of service performance] for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying [general purpose financial report/performance report] of the [entity]. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this [general purpose financial report/performance report].

Basis for Disclaimer of Opinion

As stated in noteon page..... of the [general purpose financial report/performance report]~~financial report~~, a fire at the [entity]'s office destroyed many of the accounting records. The [general purpose financial report/performance report] consequently includes a number of material amounts based on estimates. For this reason, we have been unable to confirm or verify [describe the balances affected, for example, accounts receivable, accounts payable and within the service performance information describe the service performance reported]. As a result of this matter, we were unable to determine whether any adjustments might have been found to be necessary in respect of recorded or unrecorded amounts, and the elements making up the statement of comprehensive revenue and expense, statement of changes in net assets/equity, statement of cash flows and the ~~service performance information~~[service performance information/statement of service performance].

Other Information [or another title if appropriate such as "Information other than the [general purpose financial report/performance report] and auditor's report thereon"]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information]

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor's Responsibilities for the Audit of the General Purpose Financial Report/Performance Report

Our responsibility is to conduct an audit of the general purpose financial report/performance report~~financial statements~~ in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ))~~and the audit of the service performance information, in accordance with New Zealand Auditing Standard XX The Audit of Service Performance Information and the ISAs (NZ)~~. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this general purpose financial report/performance report~~financial report~~.

We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interest in, the [entity].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Conforming Amendments to Other Standards

New text is underlined.

~~ISA (NZ) 210 Agreeing the Terms of Audit Engagement~~

~~[NZ] Appendix 1A~~

~~ISA (NZ) 580 Written Representations~~

~~[NZ] Appendix 2A~~

~~ISA (NZ) 700 (Revised) Forming an Opinion and Reporting on Financial Statements~~

~~Appendix~~

Illustrations of Independent Auditor's Reports of Financial Statements

- ~~[NZ] Illustration 1: An auditor's report on financial statements of a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a fair presentation framework (e.g., NZ IFRS).~~
- ~~...~~
- ~~[NZ] Illustration 3A: An auditor's report on the general purpose financial report, including financial statements and service performance information of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a fair presentation framework (e.g., Public Benefit Entity Standards) (where reference is made to material that is located on a website of the External Reporting Board).~~

Commented [MP129]: Consider including in NZ AS rather than ISA (NZ) 210

Commented [MP130]: Consider including in NZ AS

Commented [MP131]: Add an additional example for Tier 3 – including entity information.

Commented [MP132]: Consider including in NZ AS.

Conforming amendments to XRB Au1 Application of Auditing and Assurance Standards

Appendix 2 lists the International Standards on Auditing (New Zealand) to be applied in conducting audits of historical financial information.

Appendix 2A will be added as follows:

Appendix 2A

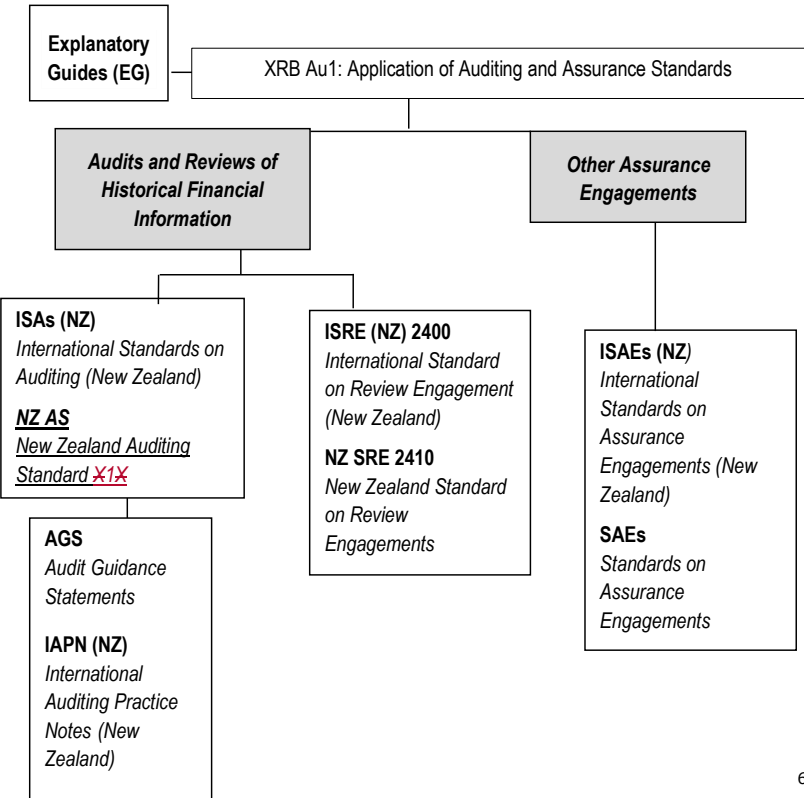
Auditing Standards (New Zealand)

This appendix is an integral part of the Standard

This appendix lists the Auditing Standards (New Zealand) to be applied in conjunction with the International Standards on Auditing (New Zealand) in conducting an audit of general purpose financial reports which comprise the financial statements and service performance information.

NZ AS ~~1XX~~ The Audit of Service Performance Information

Appendix 6 Overview of Auditing and Assurance Standards of the XRB is to be amended as follows:



|

NZ AS 1

|

199523.1199011.1

ACCOMPANYING ATTACHMENT: CONFORMITY TO INTERNATIONAL AND AUSTRALIAN STANDARDS ON AUDITING

This conformity statement accompanies but is not part of NZ AS 1XX.

Conformity to International Standards on Auditing

There is no equivalent International Standard on Auditing (ISA), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Comparison with Australian Auditing Standards

There is no equivalent Australian Auditing Standard, issued by the Australian Auditing and Assurance Standards Board (AUASB).

NEW ZEALAND AUDITING STANDARD 1

THE AUDIT OF SERVICE PERFORMANCE INFORMATION

Issued by the New Zealand Auditing and Assurance Standards Board

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New Zealand Auditing Standard (NZ AS) 1, *The Audit of Service Performance Information*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.

History of Amendments

Table of pronouncements – NZ AS 1 *The Audit of Service Performance Information*

This table lists the pronouncements establishing and amending NZ AS 1.

Pronouncements	Date approved	Effective date
New Zealand Auditing Standard 1		This NZ AS is effective for audits of service performance information included in the general purpose financial report for periods beginning on or after 1 January 2021.

Introduction

Scope of this NZ AS

1. This New Zealand Auditing Standard (NZ AS) deals with the auditor's responsibilities with respect to service performance information when an auditor is engaged to audit the general purpose financial report. Such an engagement would only be undertaken by the independent auditor of the financial statements of the entity. The auditor performs the audit of the service performance information concurrently with the audit of the financial statements. (Ref: Para. A1)
2. This NZ AS establishes requirements and provides guidance not addressed by other International Standards on Auditing (New Zealand) (ISAs (NZ)) with respect to service performance information. (Ref: Para. A2)
3. This NZ AS applies when the auditor is required by law or regulation or is otherwise engaged to audit the general purpose financial report, that is, engaged to audit both the financial statements and the service performance information. For purposes of this NZ AS, the financial statements and the service performance information are collectively referred to as the general purpose financial report. (Ref: Para. A3-A5, Appendix 1)
4. This NZ AS is not applicable when a review engagement is to be performed on the general purpose financial report.

Effective Date

5. This NZ AS is effective for audits of service performance information included in the general purpose financial report for periods beginning on or after **1 January 2021**. Early adoption is permitted.

Objectives

6. The objectives of the auditor are:
 - (a) To understand the reporting process applied by the entity to select what and how to report its service performance;
 - (b) To evaluate whether the service performance selected and the compilation methods used are suitable so as to result in service performance information in accordance with the applicable financial reporting framework;
 - (c) To obtain reasonable assurance about whether the service performance information included in the general purpose financial report is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on the service performance information;
 - (d) To report, in accordance with the auditor's findings, about whether the service performance information included in the general purpose financial report is prepared, in all material respects in accordance with the applicable financial reporting framework; and
 - (e) To communicate further as required by the ISAs (NZ) and this NZ AS, in accordance with the auditor's findings.

Definitions

7. For purposes of this NZ AS, the following terms have the meanings attributed below:
- (a) General purpose financial report – Comprise the financial statements and service performance information and, where applicable, entity information, prepared in accordance with the applicable financial reporting framework. The general purpose financial report may be referred to as a Performance Report. (Ref: Appendix 1)
 - (b) Long-form report – Auditor’s report including other information and explanations that are intended to meet the information needs of intended users but not to affect the auditor’s opinion. (Ref: Para. A68–A69)
 - (c) Misstatement – A difference between the selection, measurement, description, aggregation, presentation, or disclosure of service performance information and the selection, measurement, description, aggregation, presentation or disclosure that is required for the information to be in accordance with the applicable financial reporting framework. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud.
 - (d) Other information – Financial or non-financial information (other than the financial statements, service performance information, entity information, if applicable and the auditor’s report thereon) included in an entity’s annual report. (Ref: Para. A5)
 - (e) Risk of material misstatement – The risk that the service performance information is materially misstated.
 - (f) Reporting process – The process used by the entity in deciding how to meet the principles of the applicable financial reporting framework in reporting its service performance (including the selection, measurement, descriptions, aggregation and presentation of its service performance information). The reporting process will identify compilation methods that the entity will use in preparing its service performance information. (Ref.: Para. A6–A7)

Requirements

Conduct of the Engagement in Accordance with ISAs (NZ)

- 8. The auditor shall apply the ISAs (NZ) and this NZ AS when auditing service performance information, as appropriate. Where an entity is required to include entity information within the general purpose financial report, and the auditor is engaged to audit the general purpose financial report, the auditor shall also apply the ISAs (NZ) to the entity information, as appropriate. (Ref: Para. A8–A11, Appendix 1)
- 9. The auditor shall not represent compliance with this NZ AS unless the auditor has complied with the requirements of both this NZ AS and the ISAs (NZ).

General Principles of an Audit of the General Purpose Financial Report

- 10. The auditor shall plan and perform the audit by exercising professional judgement and with an attitude of professional scepticism, recognising that circumstances may exist that cause the service performance information to require a material adjustment for it to be prepared in all material respects, in accordance with the applicable financial reporting framework.

Agreement on Audit Engagement Terms

11. The terms of the audit engagement shall include: ¹ (Ref: Para. A12)
- (a) The responsibilities of the auditor with respect to the general purpose financial report:
 - i. To understand the reporting process applied by the entity to select what service performance to report on and the compilation methods adopted to report its service performance;
 - ii. To evaluate whether the selected service performance and the related compilation methods used are suitable so as to result in service performance information in accordance with the applicable financial reporting framework;
 - (b) The responsibilities of those charged with governance, including that they acknowledge and understand their responsibility to follow a reporting process and adopt compilation methods that are suitable in order to prepare service performance information in accordance with the applicable financial reporting framework;
 - (c) The content of the auditor's report, including whether it will be a long-form report, including additional information about the reporting process, compilation methods, detailed findings or recommendations to meet the needs of the intended users.

Documentation

12. The auditor shall document the nature, timing and extent of the audit procedures performed to comply with this NZ AS. ² (Ref: Para. A13)
13. The audit documentation shall, as far as possible, provide evidence of the correlation between the audit evidence obtained related to the financial statements and the service performance information.

Laws and Regulations

14. The auditor shall obtain an understanding of:
- (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates and, in particular, laws and regulations that specify the form, content, preparation and audit of service performance information; and
 - (b) How the entity is complying with that framework. ³
15. The auditor shall obtain sufficient appropriate audit evidence that the entity has complied with laws and regulations that have a direct effect on the reporting of service performance information. ⁴

¹ ISA (NZ) 210, paragraph 9-10

² ISA (NZ) 230, *Audit Documentation*, paragraphs 7-16

³ ISA (NZ) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 11

⁴ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

Communication with Those Charged with Governance

16. The auditor shall communicate the following matters with those charged with governance:⁵
 - (a) The auditor's views about judgements made in reporting the entity's service performance information, including any deficiencies or areas for improvement. For example, why the auditor considers the selected service performance or compilation methods are not suitable to the circumstances; (Ref: Para. A14)
 - (b) Matters involving non-compliance with laws and regulations with respect to service performance reporting obligations; and
 - (c) Deficiencies in internal control with respect to the service performance information that, in the auditor's professional judgement, are of sufficient importance to merit attention.

Planning

17. The auditor shall develop the audit plan to concurrently cover the financial statement information and the service performance information so that the audit is performed in the most effective manner and reflects the correlation between the service performance information and the financial statement information.⁶
18. In establishing the overall audit strategy, the auditor shall:
 - (a) Obtain an understanding of the applicable financial reporting framework relevant to service performance information;
 - (b) Obtain an understanding of who the intended users are and the entity's reporting process for understanding their information needs;
 - (c) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts in respect of the audit of service performance information.
19. The auditor shall discuss with those charged with governance where and how the entity intends to report its service performance information. (Ref: Para. A15)
20. If the entity intends to report service performance information about service performance provided by other entities, the auditor shall:
 - (a) Obtain an understanding of the nature and significance of the services provided by a service organisation and their effect on the user entity's internal control relevant to the audit of the service performance information, sufficient to identify and assess the risks of material misstatement and design and perform audit procedures responsive to those risks in accordance with ISA (NZ) 402.⁷ (Ref: Para. A16)
 - (b) Obtain sufficient appropriate audit evidence regarding the service performance information of the components and the consolidation process to express an opinion on

⁵ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 14-17

⁶ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 7

⁷ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

whether the group's service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.⁸ (Ref: Para. A16)

- (c) Communicate clearly with the other practitioner about the scope and timing of the work and findings of the other practitioner and evaluate the sufficiency and appropriateness of evidence obtained and the process for including related information in the service performance information when the auditor intends to use the work of another practitioner, (Ref: Para. A17)

when planning the audit of the service performance information.

Understanding the Entity and Its Environment, Including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement

Obtaining an Understanding of the Entity and Its Environment

21. The auditor shall obtain an understanding of:
 - (a) The service performance of the entity and the context in which the entity operates;
 - (b) The **entity's reporting process** for identifying what service performance to report on and the compilation methods adopted including how to measure, describe, disclosure and present its service performance information, as well as what other options were considered; (Ref: Para. A18–A20)
 - (c) Whether the reporting **process** will generate service performance information that is consistent with and clearly linked to the entity's overall purpose and strategies; (Ref: Para. A21–A23)
 - (d) **How much discretion the entity has in selecting what service performance to report on and the compilation methods used** to apply the applicable financial reporting framework;
 - (e) The extent to which consultation with intended users influenced the **reporting process and the compilation methods adopted** to develop the service performance information; and
 - (f) The judgements made in deciding when to provide comparative narrative and descriptive information.
22. The auditor shall evaluate whether the selected service performance and related compilation methods are suitable so as to result in service performance information in accordance with the applicable financial reporting framework, in that they exhibit the following characteristics: (Ref: Para. A24-A29)⁹

⁸ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁹ The applicable financial reporting framework may describe different qualitative characteristics to these characteristics which align with the characteristics referred to in Appendix 2 of ISA (NZ) 210. The application material in paragraphs A39-A43 may need to be tailored to the applicable financial reporting framework. This is illustrated in Appendix 2.

- (a) Relevance (Ref: Para. A30)
 - (b) Completeness (Ref: Para. A31)
 - (c) Reliability (Ref: Para. A32)
 - (d) Neutrality (Ref: Para. A33)
 - (e) Understandability (Ref: Para. A34).
23. The auditor shall evaluate whether the entity's reporting process is transparent so as to enable intended users to understand the assumptions underlying the information and the compilation methods adopted, for example, disclosed in the judgements reported as part of the service performance information or by cross reference. (Ref: Para. A35–A36)
24. If the entity has changed what service performance it reports on or the compilation methods used to report its service performance from the prior period, the auditor shall evaluate whether the changes are suitable in the circumstances, have been approved appropriately, and are explained within the service performance information.
25. The auditor shall evaluate:
- (a) If significant aspects of service performance have been excluded, that have been, or could readily be, measured and/or described, whether such exclusions are reasonable in the circumstances; or (Ref: Para A37–A39)
 - (b) Whether the service performance information inappropriately attributes service performance to the entity.
26. If the auditor considers that all or some of the entity's service performance information:
- (a) Fails to comply with the applicable financial reporting framework;
 - (b) Is prepared using compilation methods that are not suitable; or
 - (c) Otherwise fails to provide a reasonable basis for fairly reporting the service performance of the entity;
- the auditor shall discuss the matter with those charged with governance as soon as possible. (Ref: Para. A40)
27. The auditor shall determine:
- (a) Whether the matter can be resolved to the auditor's satisfaction;
 - (b) Whether further audit procedures can be performed with respect to the service performance information; or (Ref: Para. A41)
 - (c) Whether, and if so, how to communicate the matter in the auditor's report where the matter is not resolved to the auditor's satisfaction.
28. In the circumstances described in paragraph 26, the auditor shall consider the implications for the audit, the auditor's report and the opinion and shall express a qualified, adverse, or a disclaimer of opinion, as appropriate in the circumstances, with respect to the service performance information. (Ref: Para. A71–A77)
29. In the circumstances described in paragraph 28, the auditor is not required to withdraw from the audit of the general purpose financial report but shall consider the impact of the

modified opinion with respect to the service performance information on the financial statements.

Obtaining an Understanding of the Entity's Internal Control

30. The auditor shall:¹⁰

- (a) Obtain an understanding of internal control over the preparation of the service performance information; and
- (b) Evaluate the design of those controls and determine whether they have been implemented as designed. (Ref: Para. A42)

Materiality in Planning and Performing the Engagement

31. The auditor's consideration of materiality shall include both an evaluation of:

- (a) Whether the judgements made by the preparer in selecting what service performance to report on and the compilation methods used to measure, describe, aggregate and present the service performance information are suitable as required by paragraph 22; and (Ref: Para. A43–A46, A30, A31)
 - (b) Individual and collective misstatements in the reported service performance information, that based on the auditor's judgement, are likely to significantly influence the relevant decisions of the intended users. (Ref: Para. A47–A51)
32. The auditor shall determine and document materiality levels and/or materiality factors to be applied to the service performance information for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.¹¹ (Ref: Para. A47–A51)
33. The auditor shall revise the judgements made in determining materiality for the service performance information if matters come to the auditor's attention during the audit that would have caused the auditor to have determined different levels or factors initially.

Identifying and Assessing Risks of Material Misstatement

34. The auditor shall identify and assess the risks of material misstatement, whether due to fraud or error:
- (a) At the general purpose financial report level;¹²
 - (b) At the service performance information level; and
 - (c) At the assertion level for material service performance information
- through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement in accordance with ISA (NZ) 315 (Revised).¹³ (Ref: Para. A52–A55)

¹⁰ ISA (NZ) 315 (Revised), paragraph 12

¹¹ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraph 10 and 14

¹² ISA (NZ) 315 (Revised), paragraph 25

¹³ ISA (NZ) 315 (Revised), paragraph 5

The Auditor's Responses to Assessed Risks

35. The auditor shall design and perform procedures whose nature, timing and extent¹⁴:
- (a) Are responsive to assessed risks of material misstatement of the service performance information; and
 - (b) Allow the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement. The auditor's procedures shall include obtaining sufficient appropriate audit evidence as to the operating effectiveness of the relevant controls over the service performance information when:
 - (i) The auditor's assessment of the risk of material misstatement includes the expectation that controls are operating effectively, or
 - (ii) Where procedures other than tests of controls cannot provide sufficient appropriate audit evidence. (Ref: Para. A56 – A58)
36. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for all material service performance information.

Audit Evidence

37. The auditor shall obtain sufficient appropriate audit evidence to support material service performance information, correlating, as far as possible, with the audit evidence obtained in the audit of the financial statements.¹⁵ (Ref: Para. A59–A60)
38. The auditor shall consider the relevance and reliability of the information to be used as audit evidence. If:
- (a) Evidence obtained from one source is inconsistent with that obtained from another; or
 - (b) The auditor has doubts about the reliability of information to be used as evidence, the auditor shall determine whether additional procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.
39. The auditor's procedures shall include:
- (a) Agreeing or reconciling amounts reported in the service performance information to any underlying financial records;
 - (b) Agreeing cross references between the service performance information and the financial statements;
 - (c) Understanding any allocation methods adopted and assumptions made, and determining whether the methods adopted are suitable, have been applied consistently and are consistent with the applicable financial reporting framework; and
 - (d) Reconciling the aggregate amounts reported in the service performance information to the amounts reported in the financial statements.

¹⁴ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*

¹⁵ ISA (NZ) 500, *Audit Evidence*, paragraph 6

40. The auditor shall obtain sufficient appropriate audit evidence about whether any disclosures of judgements related to service performance information are reasonable in the context of the requirements of the applicable financial reporting framework.

Analytical Procedures

41. When designing analytical procedures, the auditor shall evaluate the service performance information through analysis of plausible relationships among both financial and non-financial data.¹⁶

Written Representations

42. The auditor shall request written representations from those charged with governance, with appropriate responsibilities for and knowledge of the service performance information, that they have fulfilled their responsibility to follow a reporting process and adopt compilation methods that are suitable so as to result in service performance information in accordance with the applicable financial reporting framework.¹⁷ (Ref: Para. A61)

Using the Work of an Auditor's Expert

43. The auditor shall determine whether specialised skills or knowledge are required regarding the service performance information and whether to use the work of an auditor's expert.¹⁸ (Ref: Para. A62)

Forming an Opinion and Reporting

44. The auditor shall form an opinion on whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.¹⁹ (Ref: Para. A63)
45. The auditor shall conclude whether, in view of the applicable financial reporting framework:
- (a) The service performance information will assist users in forming assessments about an entity's accountability for service performance and in making decisions that rely on service performance information.
 - (b) The entity has followed a reporting process and adopted compilation methods that are suitable so as to result in service performance information in accordance with the applicable financial reporting framework.
 - (c) The assumptions underlying the information are explicit, the methods adopted in compiling the information and the factors and circumstances that support any opinions expressed or disclosures made are transparent to intended users. (Ref: Para. A64–A65)

¹⁶ ISA (NZ) 520, *Analytical Procedures*, paragraph 6

¹⁷ ISA (NZ) 580, *Written Representations*, paragraph 9

¹⁸ ISA (NZ) 620, *Using the Work of an Auditor's Expert*

¹⁹ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 10

- (d) When the general purpose financial report is prepared in accordance with a fair presentation framework, the service performance information achieves fair presentation, including whether:
 - (i) The overall presentation of the service performance information has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;
 - (ii) The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that achieves fair presentation; and
 - (iii) The disclosure of the judgements made in reporting the service performance information, if applicable, is reasonable.
- 46. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance and shall take into account:
 - (a) The auditor's conclusion whether sufficient, appropriate audit evidence has been obtained;
 - (b) The auditor's conclusion whether uncorrected misstatements are material, individually or collectively;
 - (c) The auditor's evaluation of whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.
- 47. The auditor shall consider:
 - (a) Any matters arising during the course of the audit of the financial statements that may affect the auditor's evaluation of the service performance information.
 - (b) The impacts of any matters arising during the audit of the service performance information that may affect the auditor's evaluation of the financial statements.

Report Content

- 48. The auditor's report on the service performance information shall be included in a single report on the general purpose financial report and shall include the elements required by ISA (NZ) 700 (Revised). (Ref: Para. A66–A67)
- 49. The opinion section of the auditor's report shall:
 - (a) Identify the service performance information;
 - (b) State that the service performance information has been audited; and
 - (c) Include the auditor's opinion on the service performance information prepared in accordance with the applicable financial reporting framework.
- 50. When expressing an unmodified opinion on the service performance information prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

- (a) In our opinion the accompanying general purpose financial report presents fairly, in all material respects, the *[financial position of the [entity] as at December 31, 20X1, and its financial performance, cash flows and service performance]* for the year then ended in accordance with *[the applicable financial reporting framework]*; or
 - (b) In our opinion the accompanying general purpose financial report gives a true and fair view of the *[financial position of the [entity] as at December 31, 20X1, and of its financial performance, cash flows and service performance]* for the year then ended in accordance with *[the applicable financial reporting framework]*.²⁰
51. In addition to the requirements addressing financial statements in ISA (NZ) 700 (Revised), the auditor's report shall:
- (a) Describe, in the responsibilities for the general purpose financial report section, the responsibilities of those charged with governance **to follow a reporting process and adopt compilation methods that are suitable so as to result in service performance information in accordance with [applicable financial reporting framework]**;
 - (b) In the "Auditor's Responsibilities for the Audit of the General Purpose Financial Report" section:
 - Describe the audit by stating that, in accordance with this New Zealand Auditing Standard, the auditor's responsibilities are to evaluate:
 - i. **Whether the selected service performance and the related compilation methods adopted are suitable so as to result in service performance information that is in accordance with the applicable financial reporting framework**;
 - ii. The overall presentation, structure and content of the general purpose financial report, and whether the general purpose financial report represents the underlying transactions, events and service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation; and
 - iii. The consistency of the information reported in the financial statements and the service performance information. (Ref: Para. A68–A70)

Key Audit Matters

52. The auditor may be required, or may voluntarily report key audit matters in the auditor's report.²¹ If reported, key audit matters shall include matters related to the audit of the service performance information where, in the auditor's judgement, such matters were of most significance to the audit of the general purpose financial report.

Modifications to the Opinion in the Independent Auditor's Report

53. The auditor shall modify the opinion, with respect to the service performance information,

²⁰ If the applicable financial reporting framework includes requirements for entity information, the opinion may be required by law, regulation or otherwise to cover the entity information.

²¹ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

when:²²

- (a) The auditor concludes that the selected service performance and related compilation methods used are not suitable resulting in service performance information that is not in accordance with the applicable financial reporting framework; (Ref: Para A29–A34)
 - (b) The auditor concludes, based on the audit evidence obtained, that the service performance information is not individually or collectively free from material misstatement; or (Ref: Para. A71–A76)
 - (c) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information as a whole is free from material misstatement.
54. When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effects of the modification on the opinion on the financial statements. If the reason for the modified opinion impacts on the general purpose financial report as a whole, the auditor shall modify the opinion on the general purpose financial report.
55. When the auditor modifies the audit opinion with respect to the service performance information only, the audit opinion shall clearly indicate that the opinion on the financial statements is not modified. The auditor shall use the headings “Qualified Opinion on the Service Performance Information”, “Adverse Opinion on the Service Performance Information” or “Disclaimer of Opinion on the Service Performance Information” as appropriate. The opinion with respect to the financial statements shall use the heading “Opinion on the Financial Statements”.²³
56. If the auditor modifies the opinion on the financial statements, the auditor shall consider the effect of the modification on the opinion on the service performance information. (Ref: Para. A77)

Emphasis of Matter Paragraphs and Other Matter Paragraphs

57. If the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the service performance information, that in the auditor’s judgement, is of such importance that it is fundamental to users’ understanding of the service performance information, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report.²⁴
58. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the auditor’s judgement, is relevant to user’s understanding of the audit of the service performance information, the auditor shall include an Other Matter paragraph in the auditor’s report.²⁵

²² ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditors Report*

²³ Where appropriate, the heading may refer to the entity information.

²⁴ ISA (NZ) 706 (Revised)

²⁵ ISA (NZ) 706 (Revised)

Comparative Information

59. Where the entity presents a comparison of published prospective service performance information with the service performance information, the auditor shall evaluate whether the prospective service performance information presented in the general purpose financial report agrees with the information presented in the published prospective service performance information.

Other Information

60. The auditor shall read the other information and consider whether there is a material inconsistency between:²⁶
- (a) The other information and the service performance information; and
 - (b) The other information and the auditor's knowledge obtained in the audit of the general purpose financial report. (Ref: Para. A78–A79)

Application and Other Explanatory Material

Scope of this NZ AS (Ref: Para. 1–3, 7(d))

- A1. Service performance information is information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information.
- A2. Work performed in the audit of the financial statements can often be used for the purpose of the audit of the service performance information. By highlighting matters that are common to both the financial and service performance information, this NZ AS assists the auditor to accept, plan, perform and report in an effective manner, as well as highlighting areas where there are differences. This is to enable the auditor to perform the work concurrently, effectively and in an all-encompassing manner.
- A3. Some public benefit entities are required by the applicable financial reporting framework to prepare service performance information as part of the general purpose financial report. Appendix 1 illustrates what constitutes the general purpose financial report.
- A4. Principles and requirements for the reporting of service performance information are specified within the applicable financial reporting framework as follows:
 - (a) For Tier 1 and Tier 2 public benefit entities, *PBE FRS 48 Service Performance Reporting*.
 - (b) For Tier 3 public benefit entities, *PBE Simple Format Reporting – Accrual*.
 - (c) For Tier 4 public benefit entities, *PBE Simple Format Reporting – Cash*.

²⁶ ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

The Tier 3 and Tier 4 requirements also require entity information to be reported as part of the general purpose financial report. These requirements refer to the general purpose financial report as a performance report. For the purposes of this NZ AS, references to service performance information shall be taken to include service performance information and entity information, for Tier 3 or Tier 4 entities.

- A5. Some entities that are required by the applicable financial reporting framework to include service performance information in the general purpose financial report, may not be required by law or regulation to have the general purpose financial report audited or reviewed. For example, tier 3 registered charities with operating expenditure under \$500,000, and all tier 4 registered charities may have no statutory assurance requirements. Where the service performance information is not within the scope of the audit engagement, the auditor's responsibility for the service performance information is limited to following the requirements in ISA (NZ) 720 (Revised).

Definitions (Ref: Para. 7(f))

- A6. The applicable financial reporting framework includes principles to guide an entity to apply a reporting process and adopt compilation methods to implement the applicable financial reporting framework. The entity will apply its **own reporting process** to determine what service performance to report on, and what performance measures and compilation methods to use to measure and/or describe that service performance, how to structure the information, as appropriate in the entity's circumstances and how the information is related to each other and the entity's overall purpose and strategies. Even for the same underlying service performance there can be different compilation methods, which will yield a different measurement or description.
- A7. For example, a preparer might select, as one of the entity's performance measures, the levels of satisfaction using a rating scale on a survey; another preparer might select to report the number of complaints received. These are both examples of how the entity evaluates its service performance.

Conduct of the Engagement in Accordance with ISAs (NZ) (Ref: Para. 8)

- A8. The ISAs (NZ), which are based on the International Standards on Auditing (ISAs), are written in the context of an audit of financial statements by an auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. Although the service performance information is considered to be an integral part of an entity's general purpose financial report, the nature of the underlying subject matter included in the service performance information includes non-financial information which is not part of the financial statements as defined in the ISAs (NZ). However, the requirements of the ISAs (NZ) apply equally to an audit of the entire general purpose financial report, prepared in accordance with the applicable financial reporting framework, where that financial reporting framework also incorporates requirements to prepare service performance information.
- A9. The ISAs (NZ), including this NZ AS, covers all aspects of the audit of the general purpose financial report and therefore there is no requirement for the auditor to apply ISAE (NZ) 3000 (Revised) to the service performance information.

A10. This NZ AS supplements the other ISAs (NZ). It expands on how the other ISAs (NZ) are to be applied to the service performance information. This NZ AS includes specific requirements for the service performance information that are not dealt with by the other ISAs (NZ) or where the application of the other ISAs (NZ) differs as a result of the nature of the service performance information.

A11. The relevance of each of the ISAs (NZ) to the service performance information requires careful consideration. For example, ISA (NZ) 240,²⁷ ISA (NZ) 540,²⁸ ISA (NZ) 550²⁹ and ISA (NZ) 570 (Revised)³⁰ are, in principle, relevant. This is because the service performance information could be misstated as a result of fraud, misstated estimates, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

Agreement on Audit Engagement Terms (Ref: Para. 11)

A12. The terms of the audit engagement for the audit of the general purpose financial report include references to the service performance information. An example of an audit engagement letter for an audit of the general purpose financial report including service performance information is set out in Appendix 4.

Documentation (Ref: Para. 12)

A13. The following are examples of matters that the auditor may consider to be appropriate to include in the audit documentation:

- **Planning:** The overall engagement strategy, the engagement plan, capturing the nature of the plan, reflecting plans to make connections between the financial statements and service performance information, and any significant changes made during the engagement, and the reasons for such changes;
- **Materiality:** The materiality level or levels and/or factor or factors for the service performance information and matters considered in their determination;
- **Risks of material misstatement:** Key elements of the understanding obtained regarding the entity and its environment specified in paragraphs 21, and the risks of material misstatement for which in the auditor's professional judgement further procedures were required;
- **Procedures:** The nature, timing and extent of the further audit procedures performed, the linkage of those further audit procedures with the risks of material misstatement, and the results of audit procedures;
- **Evaluation of misstatements:** Misstatements accumulated during the engagement and whether they have been corrected, the auditor's conclusion as to whether uncorrected

²⁷ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

²⁸ ISA (NZ) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

²⁹ ISA (NZ) 550, *Related Parties*

³⁰ ISA (NZ) 570 (Revised), *Going Concern*

misstatements are material, and the basis for that conclusion.

Communication with Those Charged with Governance (Ref: Para. 16)

A14. The preparation of service performance information is highly judgemental. As a result, the auditor's views on the judgemental areas of the entity's reporting process, compilation methods or service performance reporting may be particularly relevant to those charged with governance in discharging their responsibilities for the preparation of the service performance information. Open and constructive communication including feedback on the maturity of the entity's reporting process, the suitability of its compilation methods or how the information compares to other entities may drive improvements in reporting over time. This may include comments about, for example, judgemental aspects of what service performance to report on, concerns regarding bias or the quality of the presentation of the information.

Planning (Ref: Para. 19–20)

A15. Information required to be included in the financial statements by the applicable financial reporting framework may be incorporated therein by cross-reference.³¹ Such information will form part of the financial statements. Service performance information that is incorporated into the general purpose financial report by cross-reference will form part of the general purpose financial report and will be subject to the audit in accordance with this NZ AS.

A16. The applicable financial reporting framework may allow flexibility in where and how an entity reports its service performance information. It may be appropriate for an entity to report service performance information about service performance provided by other entities. ISA (NZ) 402³² may be relevant to the audit of the service performance information, if the user entity makes use of a service organisation for the preparation of service performance reporting with another entity or where the entity outsources aspects of their business to organisations that provide services ranging from performing a specific task under the direction of the entity to replacing an entity's entire business units or functions that are significant to the service performance information. Alternatively, ISA (NZ) 600³³ may be relevant, adapted as necessary to the circumstances, when the auditor involves other auditors in the audit of the service performance information where the service performance information includes information about goods and services provided by other entities.

A17. The service performance information may include information upon which another practitioner may have expressed an opinion. The auditor, in concluding on the general purpose financial report, may decide to use the evidence on which that other practitioner's opinion is based to provide evidence regarding the service performance information included in the general purpose financial report. The work of another practitioner may be

³¹ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph A2

³² ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

³³ ISA (NZ) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

used in relation to service performance information that falls outside the boundary of the reporting entity. Such practitioners are not part of the engagement team. Relevant considerations when the engagement team plans to use the work of another auditor may include:

- (a) Whether the auditor understands and complies with the requirements of Professional and Ethical Standard 1 (Revised).
- (b) The other practitioner's professional competence.
- (c) The extent of the engagement teams' involvement in the work of the other practitioner.

Understanding the Entity and Its Environment, Including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement (Ref: Para. 21–29)

- A18. The entity will follow its reporting process to identify what and how to report its service performance to implement the applicable financial reporting framework applicable to its circumstances. Without suitable compilation methods, the entity does not have an appropriate basis on which to prepare the service performance information and the auditor will be unable to meet the objectives of the audit. Without the frame of reference provided by transparent assumptions and compilation methods, any conclusion is open to individual interpretation and misunderstanding. The suitability is context-sensitive, that is, it is determined in the context of the entity's circumstances.
- A19. The selection of what service performance to report on and how to measure or describe that service performance, and then aggregate and present the information is more judgemental than reporting on financial information. Preparers of service performance information may have a wide variety of performance frameworks, guidance, or codes (or a combination thereof) to choose from in the preparation of this information. The entity will need to interpret the applicable financial reporting framework and either identify or select a pre-existing external reporting process, including pre-established performance measures and/or descriptions from guidance, standards, or laws or regulation or it may need to apply judgement to develop its own internally developed reporting process, identifying methods for measuring or describing its service performance. The need for such judgement makes the preparation of the service performance information inherently more susceptible to the risk of bias.
- A20. In the example where an entity identifies stakeholder satisfaction as the underlying service performance to report on, the entity identifies the most suitable method to measure or describe this performance in the context of the entity.
- A21. The application of professional scepticism by the auditor is particularly important when assessing the neutrality and completeness of the service performance selected and the compilation methods used due to the level of judgement to be exercised by the entity. This is particularly important if the entity's compilation methods are not substantially based on established compilation methods generally used in the entity's sector, or are inconsistent with such methods and assumptions. The auditor will need to apply significant professional judgement in the assessment of the suitability of the selected information and the entity's compilation methods in situations where a well-designed due process is not followed or

where the intended users were not involved in the selection of what service performance to report on and/or the development of the compilation methods to be used.

- A22. The reporting process applied by the entity to determine what to report on and how to report its service performance may affect the work that the auditor carries out. The level of potential preparer bias in selecting what and how to report its service performance will directly correlate with the amount of work that the auditor will need to perform when considering the design of the entity's compilation methods. For example, use of performance measures specified by external benchmarks or industry guidance may require less work than internally generated performance measures as external guidance reduces the risk of bias. Transparency about the entity's reporting process and the entity's consideration of materiality may also affect the work that the auditor carries out.
- A23. Factors that the auditor may consider in obtaining an understanding of the entity's reporting process include:
- Whether there are factors that are outside the control of the entity or there are long time frames that are required to make assessments of the entity's service performance.
 - Examples of the impact of the source of the compilation methods:
 - The scope of what service performance to report on or the compilation methods adopted may be embodied in law or regulation specific to the entity, industry or sector in which the entity operates and, in particular, with laws and regulations that specify the form and content of service performance information or which describe the entity's accountability. In the absence of indications to the contrary, such compilation methods are presumed to be suitable.
 - The entity may use 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, for example, a local authority's Long-Term Plan. Compilation methods and/or performance measures that have been pre-agreed with key stakeholders may have a lower risk of preparer bias.
 - The entity may have described predetermined objectives or specific performance goals or targets in agreements with key stakeholders (e.g., in an entity's Long-Term Plan or in funding contracts or agreements with key funders) or in the entity's statement of intent or charter and recent plans and strategies. Performance measures that have been pre-agreed with key stakeholders may have a lower risk of preparer bias.
 - 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 auditor may need to evaluate the suitability of these guidelines to the entity's circumstances and to how these align to intended users' needs. A more detailed set of compilation methods or performance measures may be more appropriate.
 - Results of surveys, e.g., satisfaction surveys, or other evidence of stakeholder consultation, e.g., feedback, complaints, targeted interviews or stakeholder

workshops, providing information about who the intended users are and what information they may find helpful to assess the performance of the entity. A well-designed process in developing what service performance to report on and the related compilation methods with involvement of intended users lowers the risk of preparer bias.

- Other external requirements or agreements with external parties that influence the entity's service performance accountability.
- Other contextual information, including strategic and operational objectives. For example, an entity's constitution, trust deed, mission statement, recent plans and strategies.
- How the entity assesses its service performance for the purposes of internal decision making.
- Whether the entity's compilation methods have been validated through research conducted to be well correlated with what they are intended to measure or describe.
- Changes from the prior period in the nature or extent of operations.
- Whether it is appropriate to report on information that falls outside of the boundary of the reporting entity.

A24. When evaluating whether the selected service performance and related compilation methods are suitable, the auditor is evaluating the preparers judgements made in applying the qualitative characteristics referred to in the applicable financial reporting framework. The qualitative characteristics described in the applicable financial reporting framework are similar to the characteristics of suitable criteria described in paragraph 22 but may differ in the words used. The characteristics in paragraph 22 are framework neutral. Appendix 2 illustrates the similarities.

A25. The characteristics are not mutually exclusive, and the relative importance of each characteristic will vary according to the circumstances. The preparer will exercise significant judgement to develop its reporting process and compilation methods to report the entity's service performance that meet the qualitative characteristics.

A26. The auditor's role is to evaluate whether the entity has appropriately applied the qualitative characteristics and pervasive constraints as required by the applicable financial reporting framework in preparing the service performance information. In doing so, the auditor evaluates whether the selected service performance and related compilation methods are suitable. This evaluation will be based on a consideration of the process adopted, and choices and trade-offs made by the preparer in determining the most appropriate manner in which to tell the entity's service performance story.

A27. The selected service performance and compilation methods used are suitable when the entity has appropriately applied the qualitative characteristics and pervasive constraints to enable users to make an informed assessment of the entity's service performance, and include reasonable quantitative or qualitative measures or descriptions of service performance against which the entity's service performance may be assessed and are of particular value or importance for accountability and decision-making purposes.

A28. When evaluating the **suitability** of the selected service performance and related compilation methods as required by paragraph 22, the auditor may consider:

- (a) The intended users of general purpose financial reports and their information needs, whether users were involved in the selection **of what to report on or development of the compilation methods adopted** and if not, reasons why not;
- (b) How the qualitative characteristics applied by the preparer have influenced the reporting **process** (e.g., service performance information must be relevant, but the overall volume of information must also be accessible in order for it to be understandable);
- (c) The various components of the entity's service performance and check for credible links, internal logic and consistency with the financial information
- (d) How the entity plans to present and disclose financial and service performance information that is material;
- (e) The complexity of the underlying service performance;
- (f) Other potentially more suitable compilation methods that could have been used and reasons why those were not considered;
- (g) Potential misunderstanding of the resultant service performance information generated after application of the reporting process by intended users; and
- (h) Knowledge of other similar entities reporting format.
- (i) **Web and social media searches.**

A29. The evaluation required by paragraph 22 may be iterative and may require re-evaluation as the auditor's understanding of the entity or the needs of intended users grows, if the entity makes changes to its service performance information, performance measures or descriptions or as the auditor gathers audit evidence.

A30. Factors that the auditor may consider when evaluating **relevance** include:

- The rationale for the selection of what service performance to report on, for example, whether the service performance relates to a significant risk to the public (e.g., the purity of water supply) or that could have a positive or negative effect on social, economic, or environmental wellbeing.
- Whether the service performance information is likely to meet the needs of intended users so as to be useful for decision making, for example, is of significant community interest or interest to the public.
- The extent to which consultation with users has influenced the selection of what **service performance to report and the compilation methods used.**
- Information that could significantly affect the reputation of the entity.
- Whether the service performance information shows clear and logical links between the service performance to be measured or evaluated and the entity's overall purpose and strategies so that the rationale for their selection is evident.
- Whether the **compilation methods** used will generate service performance information that will be consistent and clearly linked with the financial information for example,

relates to service performance that is financially material; or relates to a performance measure that may have a significant effect on management performance rewards.

A31. Factors that the auditor may consider when evaluating completeness include whether:

- All significant aspects of service performance that would enable the user to make an informed assessment are included;
- The service performance includes negative aspects of performance or areas where there is a significant risk of performance failure by the entity.

Completeness relates more to a balanced reflection of service performance rather than an overly comprehensive and extensive set of performance measures which can result in too much information, reducing the relevance of the report.

A32. Factors that the auditor may consider when evaluating reliability include whether:

- The **service performance is** capable of measurement or description in a consistent manner from period to period;
- The **reporting process is** well defined and there is likely to be evidence to support the information that will be generated;
- The service performance information is capable of validation by the auditor and will not result in unsubstantiated claims, including whether there is a robust and reliable collection process;
- The **compilation methods** are likely to result in service performance information that is free from material misstatements, including omission of fact, or misrepresentation of trend;
- The **compilation methods** are consistent with industry benchmarks, where these are available.

A33. Factors that the auditor may consider when evaluating neutrality include whether the service performance information:

- Is balanced, and is likely to result in information that is aggregated, where appropriate, and covers all important aspects, with suitable emphasis, to fairly reflect the significance to the entity's service performance;
- Covers both favourable and unfavourable aspects of the entity's service performance in an unbiased manner;
- Is not changed arbitrarily to remove negative aspects of performance year on year.

Special care may be necessary to evaluate neutrality where, for example, there are **no compilation methods** established externally, no predetermined performance measures established with key stakeholders or no guidelines developed by an external industry group.

A34. Factors that the auditor may consider when evaluating understandability include whether:

- The format adopted is clearly laid out and presented in a way that will enable the user to identify the main points of the entity's service performance in that year;
- The assessment of service performance is coherent, easy to follow, and will result in service performance information that is clear and logical;

- The service performance information is concise and aggregated where appropriate;
- The information is explained and presented in a way that makes its significance clear.

A35. In determining whether the reporting process is transparent and the compilation methods are available to users, the auditor may consider whether there will be enough context for the service performance information, including whether the rationale for determining:

- (a) What service performance to report on; and
- (b) Whether to include information about the role of other entities, collaborative relationships and the provision of resources to others

is transparent to users so that users can understand the judgements made in preparing the service performance information.

A36. Disclosure of the judgements made by the entity is important in making the reporting process and compilation methods available to intended users, where, for example, the entity has more discretion in selecting what service performance to report on and the compilation methods to use (i.e., the reporting process is internally generated). Alternatively, the reporting process may originate from an external performance framework supplemented by disclosures, in the explanatory notes to the general purpose financial report.

A37. In the early stages of reporting service performance information, the entity may not have developed an appropriate reporting process supported by internal controls and may therefore be unable to include certain aspects of its service performance in its service performance information. The auditor exercises professional judgement to conclude on the impact of any such omissions (including those for which the entity has provided reasons or explanations). This is particularly relevant since entities may be at varying stages of maturity in respect of preparing service performance information.

A38. For example, in the early stages of an entity generating service performance information, it may focus its reporting on a particular area of service performance because reporting systems have not yet been established and implemented for other areas. The auditor may still be able to conclude that the selection of service performance and the related compilation methods are suitable if there are:

- (a) Clear disclosures in the service performance information of the facts and reasons surrounding the exclusion of some service performance. However, if the entity makes no progress in developing reporting systems over time or continues to exclude service performance once reporting systems are established and implemented, the auditor may no longer be satisfied that the selection and compilation methods are suitable; and
- (b) The auditor concludes that the disclosures provided will meet the information needs of the intended users.

A39. Service performance information reported because it is readily quantifiable may not be suitable and may not meet the principles of the applicable financial reporting framework. For example, the entity may select service performance to report on the basis that the selected performance is readily measurable. However, it may not be the most relevant information to enable the user to understand or assess the service performance of the entity during the year.

A40. Communication with those charged with governance in a timely manner may enable

improvements to be made to the service performance information.

A41. Factors the auditor may consider in determining whether to perform further audit procedures include:

- (a) The pervasiveness of the matter;
- (b) The materiality of the matter;
- (c) Whether the auditor's concern is with respect to the presentation of the information only;
- (d) Whether further audit procedures will enable the auditor to express an opinion on some of the service performance information.

Obtaining an Understanding of the Entity's Internal Control (Ref: Para. 30)

A42. Control activities that may be relevant to the audit of the financial statements include policies and procedures that pertain to internal management performance reviews,³⁴ including reviews and analyses of actual performance versus budgets and relating different sets of data – operating or financial – to one another. An understanding of the control activities that pertain to performance reviews will be especially relevant to the audit of the general purpose financial report and may assist the auditor to audit the service performance information concurrently with the financial information.

Materiality in Planning and Performing the Engagement (Ref: Para. 31–32)

Consideration of what service performance is included in the report

A43. The relevance of what service performance is selected to be included in the general purpose financial report is strongly linked with judgements made by the entity about the materiality of information. Service performance information is deemed to be material if it could reasonably be expected to influence relevant decisions of intended users. The service performance information will not be considered to be complete if it does not contain all material service performance.

A44. The applicable financial reporting framework discusses the concept of materiality in the context of preparation and presentation of service performance information.³⁵ Such a discussion provides a frame of reference to the auditor in determining materiality. The auditor's consideration of the entity's reporting process provides context in determining materiality.

A45. The evaluation required by paragraph 22 and factors considered by the auditor in paragraph A30 and A31, provides a frame of reference to the auditor in understanding what matters are of most significance to intended users, and may assist in identifying the risks of material misstatement in the service performance information.

A46. When determining materiality, the auditor may:

³⁴ ISA (NZ) 315 (Revised), Appendix 1, paragraph 9

³⁵ PBE IPSAS 1 *Presentation of Financial Statements*, paragraphs 46A.1–2 and Explanatory Guide A7: *Materiality for Public Benefit Entities*

- Discuss the entity's **process for determining** material service performance information with management and those charged with governance (and, if necessary and appropriate, external stakeholders). It may be appropriate to discuss matters with external stakeholders when the determination of the entity's material service performance information includes, for example, clearly contentious issues or performance measures for which there is no evidence to support the entity's role in the improvements reported.
- Consider whether the entity's determination of material service performance information is consistent with the auditor's knowledge of the entity and the environment, including reporting by similar entities and previous reporting by the entity and information obtained from sources such as minutes of meetings, media reports and any stakeholder outreach activities, including satisfaction surveys, feedback and complaints received, web and social media searches, targeted interviews or stakeholder workshops.

Materiality levels and factors

A47. The materiality level or levels are expressed in terms of the appropriate unit of **account for each element or performance measure reported. The materiality level determines what level of misstatement will be tolerated by the auditor. Using a percentage is another commonly used way to establish such a level. It may be possible to group similar service performance information and make materiality decisions on the same basis if they have the same unit of account. The basis and level may differ from the basis and level for determining materiality as required by ISA (NZ) 320.**

A48. There are multiple factors that may lead to a material misstatement:

- Omissions of fact – could omissions result in misleading the user?
- Misstatements of fact – could a misstatement result in misleading the user?
- Misrepresentation of trend – does the service performance information make claims that do not represent the facts available?
- Bias – does the service performance information focus unduly on positive aspects of performance, or omit negative aspects?
- Unsubstantiated claims.

A49. The following factors may assist the auditor when exercising professional judgement in determining whether there are material misstatements in either the qualitative or quantitative service performance information:

- How the information is presented. For example, does the presentation draw attention to particular information?** The auditor may be less tolerant of misstatement in information that is given the most prominence.
- 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.
- The importance of the activity to achieving the entity's service performance objectives. For example, whether the performance measures related to the primary**

purpose of the entity. The more important the activity, the less tolerance for misstatement.

- (e) The extent of interest shown in particular aspects of service performance by, for example, the legislature, funders, the media or the public and whether the 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 auditor should be less accepting of potentially misleading or inaccurate information.
- (f) The type of performance measures and/or descriptions adopted, including the sensitivity of the information to error or the wording chosen to express a description. In some cases, there are particular types of disclosures for which misstatements of lesser or greater amounts are acceptable.
- (g) The interaction between, and relative importance of, various components of the service performance information when it is made up of multiple components, such as information that includes numerous performance measures or relates to an activity that is financially significant. The auditor may be less tolerant of misstatement for information that is given the most prominence
- (h) The economic, social, political and environmental effect of a project or an entity's work, for example, there is a high level of wider societal interest in it, particularly high levels of public sensitivity, or relate to activity that could be a significant risk to the public.
- (i) Whether the information includes information about achieving a target or threshold, and the relationship of the actual performance to the target. For example, if the entity compares actual performance to a previously reported target, the auditor will be particularly diligent where a target has only just been achieved.
- (j) Whether a misstatement is the result of an intentional act or is unintentional. For example, intentional attempts to mislead users may result in the auditor performing more detailed work.
- (k) Whether a misstatement is significant having regard to the auditor's understanding of known previous communications to users.
- (l) 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.

A50. The auditor is unlikely to be able to set an overall materiality level because there is unlikely to be a common unit of account. It is also unlikely that the auditor will be able to aggregate misstatements. However, this does not remove the need for the auditor to form a conclusion as to whether uncorrected misstatements are material individually or collectively as required by paragraph 46.

A51. For historical financial information extracted from the audited financial statements, the engagement team may determine that the materiality level or levels used in the audit of the financial statements are acceptable for the purposes of the service performance information.

Identifying and Assessing Risks of Material Misstatement (Ref: Para. 34)

- A52. The auditor assesses the risk of material misstatement at the general purpose financial report level considering the links between the financial statement information and the service performance information in order to form an overall opinion as to whether the general purpose financial report is materially misstated.

Assertions about service performance and related disclosures

- A53. The auditor may use the assertions as described in paragraph A55 below or may express them differently provided all aspects described below have been covered. For example, the auditor may choose to combine the assertions about occurrence and attribution.
- A54. In the public sector, the entity may assert compliance with law or regulation, in addition to the assertions set out in paragraph A55 below.
- A55. Assertions used by the auditor in considering the different types of potential misstatements of service performance information that may occur may fall into the following categories:
- (a) Occurrence – service performance that has been reported has occurred.
 - (b) Attributable to the entity – the service performance reported by the entity includes only service performance that the entity has evidence to support its involvement with.
 - (c) Completeness – all significant service performance that should have been reported has been included in the service performance information.
 - (d) Accuracy – service performance has been reported, measured and described appropriately and is consistent with financial statement information.
 - (e) Cut-off – the service performance has been reported in the correct period.
 - (f) Presentation – service performance is appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable.

The Auditor's Responses to Assessed Risks (Ref: Para. 35–36)

- A56. Procedures that may be performed include:
- (a) Testing and evaluating the systems, processes and controls that capture, record, analyse and monitor the service performance information;
 - (b) Performing analytical review procedures;
 - (c) Performing other substantive or re-performance tests.
- A57. The quality of the systems used to record and control results, and the nature and quality of evidence available, may have an effect on the mix of procedures used. For instance, a weak recording or control system may force the auditor to use primarily substantive procedures. In rare cases, the absence of controls may make it impossible to obtain sufficient appropriate audit evidence.
- A58. In some instances, there may not be control activities that could be identified by the auditor, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the auditor to perform audit procedures that are primarily substantive procedures. In rare cases, the absence of controls may make it impossible to obtain sufficient appropriate audit evidence.

Audit Evidence (Ref: Para. 37)

- A59. Making correlations with audit evidence obtained in the audit of the financial statements, as far as possible, maximises the effectiveness of the audit of the general purpose financial report.
- A60. The mix of procedures to be performed may vary compared with the mix used in regard to the financial information but does not alter the need to obtain sufficient appropriate audit evidence.

Written Representations (Ref: Para. 42)

- A61. The representation letter for the audit of the general purpose financial report includes references to the service performance information. An example of an illustrative representation letter for the audit of the general purpose financial report that includes service performance information is set out in Appendix 5.

Using the Work of an Auditor's Expert (Ref: Para. 43)

- A62. Expertise in a field other than accounting or auditing may be necessary as a result of information included in the service performance information. Expertise in a field other than accounting or auditing may include expertise in relation to such matters as:
- The measurement of complex performance measures, for example:
 - Climate change calculations;
 - Specific scientific measurements;
 - Social impact measurement
 - Human rights performance
 - People and diversity disclosure
 - Assertions made about the entity's performance, for example, when reporting on the difference that the entity has made;
 - Conformity assessments, ecolabelling and certification programmes.

Forming an Opinion and Reporting (Ref: Para. 44–47)

- A63. The auditor's conclusion on the service performance information covers both:
- (a) Whether the **selected service performance and the related compilation methods used** are suitable so as to result in service performance information in accordance with the applicable financial reporting framework; and
 - (b) Whether the service performance information represents the underlying service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation.
- A64. Those charged with governance will make a number of judgements about the selection, **measurement**, description, aggregation and presentation of information reported. In considering the qualitative characteristics described in the applicable financial reporting framework, the auditor may become aware of bias. The auditor may conclude that the cumulative effect of the lack of neutrality, together with the effect of uncorrected

misstatements causes the service performance information to be materially misstated.

- A65. The disclosure of the judgements made in selecting and aggregating service performance information is particularly important so that users can understand how particular matters are reported in the service performance information.

Report Content (Ref: Para. 48–51)

- A66. The auditor's report on the general purpose financial report includes references to the service performance information. An illustrative report that includes references to the service performance information is set out in Appendix 6.
- A67. The auditor may assert compliance with the International Standards on Auditing (New Zealand) (ISAs (NZ)) but may not assert compliance with the International Standards on Auditing (ISAs) where the auditor's report refers to service performance information.
- A68. This NZ AS requires the auditor's report to include at least all elements required by ISA (NZ) 700 (Revised). However, this NZ AS allows for flexibility and an auditor may include additional information, as described in paragraphs A68-A69, resulting in a long-form report.
- A69. The auditor's report may describe additional details relevant to the audit of the service performance information that are intended to meet the information needs of users but not to affect the auditor's conclusion. This information may be required by legislation or agreed in the terms of the engagement to meet the needs of users. If the report includes other information it is a long-form report as the information is additional to the basic elements required in paragraph 51. A long-form report should not be worded in a manner that it may be regarded as a modification of the auditor's opinion. The auditor's report may describe, for example:
- The underlying facts and information about the entity's reporting **process (e.g., the maturity of the entity's reporting process compared to others in the industry)**.
 - The source of the **compilation methods**, and whether they are externally established (e.g., established in section xxx of applicable legislation or externally established performance frameworks).
 - Any significant interpretations made in selecting what service performance to report on or applying the entity's compilation methods in the circumstances.
 - Whether there have been any changes in the entity's **compilation methods** (e.g., changes in the **performance measures** used).
 - Findings or recommendations for improvements to the service performance information.
 - Any other matters the auditor considers necessary to meet the needs of users.
- A70. The auditor is encouraged to report their findings or recommendations where the auditor considers the information would enhance transparency and assist the user to understand the level of maturity that the entity has achieved in its reporting. Reporting of findings and recommendations may promote and also highlight to the user improvements in reporting over time.

Modifications to the Opinion in the Independent Auditor's Report (Ref: Para. 31, 53)

A71. A misstatement of the service performance information may arise in relation to:

- (a) The suitability of the **selected service performance and related compilation methods**;
- (b) The application of the **compilation methods**;
- (c) Inadequate disclosure of judgements made, where applicable; or
- (d) Incomplete disclosures that do not include all disclosures required by the applicable financial reporting framework or do not achieve fair presentation of the service performance information.

A72. In relation to the suitability of **the selected service performance and related compilation methods**, material misstatements of the service performance information may arise, for example, when:

- (a) The entity's **compilation methods** are not consistent with the **principles** in the applicable financial reporting framework.
- (b) The entity has not appropriately applied the qualitative characteristics, in accordance with the applicable financial reporting framework and therefore the service performance information does not enable a meaningful assessment of performance to be made by intended users.

A73. The auditor may determine that a material misstatement exists in the **service performance information**:

- (a) When, in the auditor's professional judgement, the compilation methods used are likely to mislead the intended users. A qualified opinion or adverse opinion would be appropriate in the circumstances depending on how material and pervasive the matter is.
- (b) In other cases, a qualified opinion or a disclaimer of opinion would be appropriate depending on, in the auditor's professional judgement, how material and pervasive the matter is.

A74. In relation to the application of the **compilation methods**, material misstatements of the service performance information may arise:

- (a) Due to a misapplication of the **compilation methods** (e.g., an unintentional error in application). **A qualified opinion may be appropriate in the circumstances where there is a material misstatement that is not pervasive, depending on how material the matter is.**
- (b) When the reporting **compilation methods** are not applied consistently to the service performance, or not applied consistently between periods.

A75. In relation to the appropriateness or adequacy of disclosures in the general purpose financial report, material misstatements may arise when:

- (a) The general purpose financial report does not provide all disclosures required by the applicable financial reporting framework.
- (b) The general purpose financial report does not provide all disclosures necessary to achieve fair presentation of the service performance information.

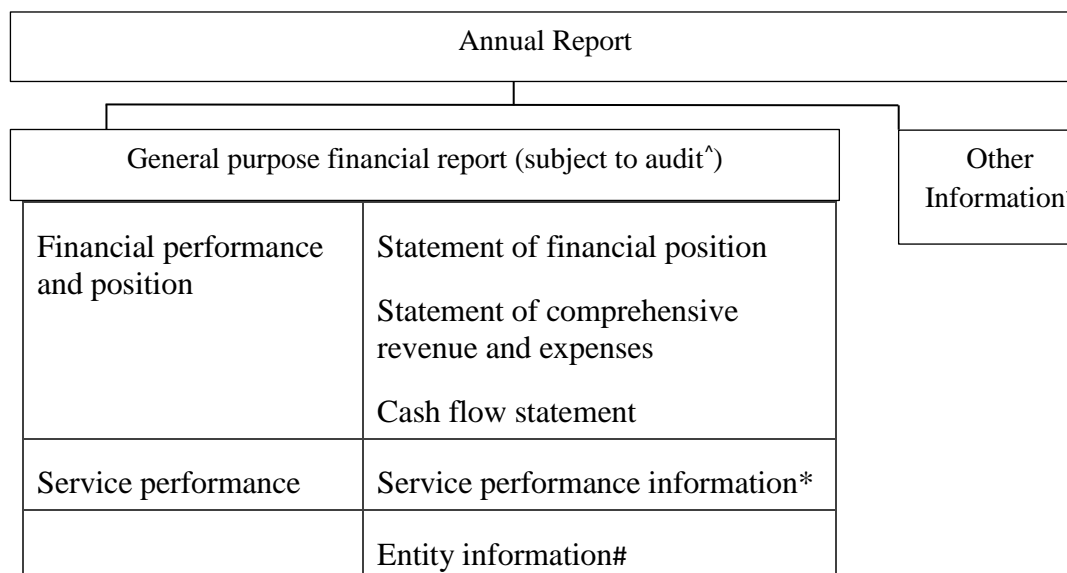
- A76. Appendix 4 includes illustrative auditor's reports with a qualified, adverse or disclaimer of opinion with respect to the service performance information.
- A77. In many instances, a modification with respect to the service performance information will have no impact on the opinion on the financial statements.

Other Information (Ref: Para. 60)

- A78. Appendix 1 illustrates what constitutes other information for the purposes of this NZ AS.
- A79. Other information, whether financial or non-financial information (other than the financial statement information and service performance information) may be included in an annual report. The auditor's opinion does not cover the other information. The auditor's responsibilities regarding other information within the annual report, but located outside of the general purpose financial report as defined in this NZ AS, is determined by ISA (NZ) 720 (Revised) and by this NZ AS.

Appendix 1

(Ref: Para. 7(a), 8, A3, A77)

What Constitutes the General Purpose Financial Report

[^] Some entities are required by law or regulation to have the general purpose financial report audited or reviewed. Other entities may elect to include service performance information within the scope of the audit. Where the service performance information is not included within the scope of the audit, this NZ AS does not apply.

^{*} Service performance information may be included in the general purpose financial report by cross-reference where the applicable financial reporting framework permits disclosures to be cross referenced.

[#] Where entity information is required to be included in the general purpose financial report by the applicable financial reporting framework.

⁺ Other information may include forward looking information, other historical information and management discussion and analysis. ISA (NZ) 720 (Revised) addresses the auditor's responsibilities with respect to other information. ISA (NZ) 720 (Revised) applies to the service performance information when service performance information is not included within the scope of the audit.

Appendix 2

(Ref: Para. 22)

Understanding the entity's reporting process and evaluating the suitability of the compilation methods used

	Applicable financial reporting framework	Preparer	Auditor
Financial statements	Detailed recognition and measurement requirements established in PBE Standards	Apply the recognition and measurement requirements and disclose the accounting policies applied	The recognition and measurement requirements from PBE Standards are suitable
Service performance information	Principles require the preparer to apply the qualitative characteristics and pervasive constraints	Develop a reporting process and related compilation methods	Auditor evaluates whether the selected service performance and related compilation methods used are suitable

Is the selected service performance and the compilation methods used suitable? (Ref: Para 22)³⁶
Relevance
Reliability
Completeness Neutrality
Understandability

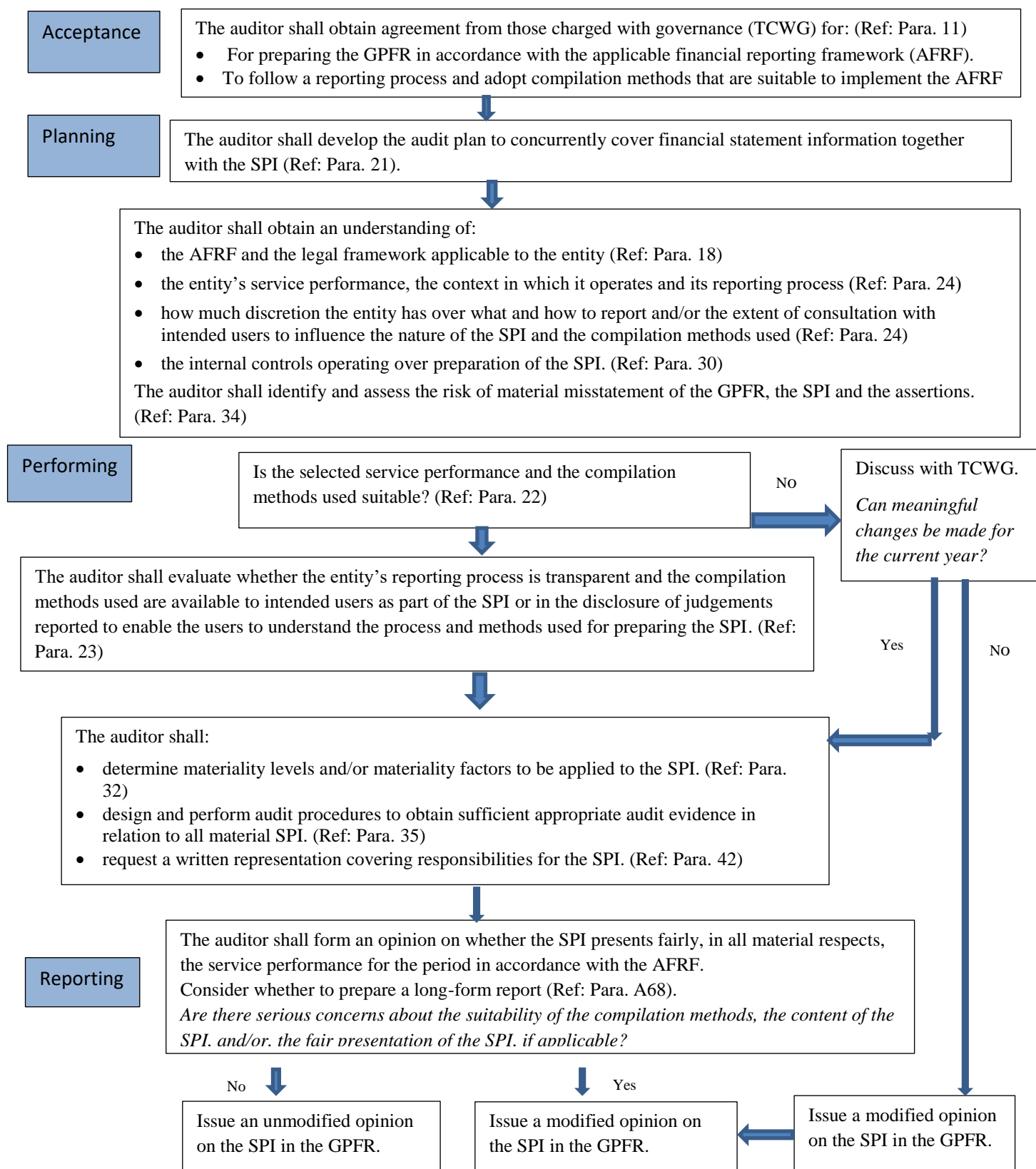
These may be articulated differently in the applicable financial reporting framework (Ref: Para. A29)³⁷
Relevance. Includes timeliness.
Includes verifiability
Faithful representation including: Completeness Neutrality
Understandability and comparability

³⁶ Paragraph 44, EG Au1A, *Framework for Assurance Engagements*

³⁷ The qualitative characteristics are described in PBE FRS 48 paragraph 9.

Appendix 3

Flowchart of the Audit of Service Performance Information (SPI) included in the General Purpose Financial Report (GPFR)



Appendix 4

(Ref: Para. A12)

Illustrative Engagement Letter Including Service Performance Information

The following is an example of an audit engagement letter for an audit of the general purpose financial report, including service performance information prepared in accordance with the applicable financial reporting framework issued by the New Zealand Accounting Standards Board. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in the ISAs (NZ) including this NZ AS 1. It will need to be varied according to individual requirements and circumstances.

To the Chairperson:³⁸

[The objective and scope of the audit]

You have requested that we audit the *[general purpose financial report/performance report]* of ABC [Entity], which comprise the statement of financial position as at December 31, 20X1, and the *[entity information]*, *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, statement of cash flows and *[service performance information/statement of service performance]* for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the *[general purpose financial report/performance report]* as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of this *[general purpose financial report/performance report]*.

[The responsibilities of the auditor]

We will conduct our audit of the *[general purpose financial report/performance report]* in accordance with ISAs (NZ). Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the *[general purpose financial report/performance report]*, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and

³⁸ The addressees and references in the letter would be those appropriate in the circumstances of the engagement. It is important to refer to the appropriate persons – refer to ISA (NZ) 210 paragraph A22.

appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the [*general purpose financial report/performance report*] that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Understand the reporting process applied by the entity to select what service performance to report on and the compilation methods adopted to report its service performance;
- Evaluate whether the selected service performance and the related compilation methods used are suitable so as to result in service performance information that is in accordance with the [*Public Benefit Entity Standards*];
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the general purpose financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity] to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the [*general purpose financial report/performance report*], including the disclosures, and whether the [*general purpose financial report/performance report*] represent the underlying transactions, events and service performance in a manner that achieves fair presentation.
- The consistency of the information reported in the financial statements and the service performance information.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (NZ).

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

Our audit 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 [*general purpose financial report/performance report*] in accordance with [*Public Benefit Entity Standards/ Public*

Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)];

(b) To follow a reporting process and adopt compilation methods that are suitable in order to prepare service performance information in accordance with [Public Benefit Entity Standards]/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)];

(c) For such internal control as [they] determine is necessary to enable the preparation of the [general purpose financial report/performance report] that is free from material misstatement, whether due to fraud or error; and

(d) 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 [general purpose financial report/performance report] such as records, documentation and other matters;
- (ii) Additional information that we may request from [management or the directors] for the purpose of the audit; and
- (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [those charged with governance], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

[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 auditor's report.]

The form and content of our report may need to be amended in the light of our audit findings [and may be in long-form, including findings or recommendations related to the entity's service performance information and compilation methods used].

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the general purpose financial report including our respective responsibilities.

[Governing body]

Acknowledged and agreed on behalf of the [Governing body] by

(signed)

.....

Name and Title

Date

Appendix 5

(Ref: Para. A60)

Illustrative Representation Letter (including service performance information)

The following illustrative letter includes written representations that are required by this standard and other ISAs (NZ). 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 Auditor)

(Date)

This representation letter is provided in connection with your audit of the [*general purpose financial report/performance report*] of ABC Entity for the year ended December 31, 20XX which comprise the statement of financial position as at December 31, 20X1, and the [entity information], [statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity], statement of cash flows and [service performance information/statement of service performance] for the year then ended, and notes to the financial statements, including a summary of significant accounting policies³⁹ for the purpose of expressing an opinion as to whether the [*general purpose financial report/performance report*] complies with [*Public Benefit Entity (PBE) Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] and gives a true and fair view of the financial position of ABC [entity] as at December 31, 20XX and of the [entity information], results of its operations, its cash flows and its service performance for the year then ended.

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*):

[*General Purposed Financial Report/Performance Report*]

We have fulfilled our responsibilities on behalf of [the entity], as set out in the terms of the audit engagement dated [insert date], for:

- The preparation, and fair presentation of the [*general purpose financial report/Performance Report*] in accordance with [*PBE Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.
- The reporting process and compilation methods used that are suitable in order to prepare service performance information in accordance with [*PBE Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*]. (NZ AS 1)
- Significant assumptions used by us in making accounting estimates, including those

³⁹ Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor's report.

measured at fair value, are reasonable. (ISA (NZ) 540)

- Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with PBE Standards. (ISA (NZ) 550)
- All events subsequent to the date of the financial statements which require adjustment or disclosure have been adjusted or disclosed. (ISA (NZ) 560)
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate or collectively, to the [*general purpose financial report performance report*] as a whole. A list of the uncorrected misstatements is attached to the representation letter. (ISA (NZ) 450)
- [Any other matters that the auditor may consider appropriate.]

Information Provided

- We have provided you with⁴⁰:
 - Access to all information of which we are aware that is relevant to the preparation of the [*general purpose financial report/performance report*] such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the [*general purpose financial report/performance report*] may be materially misstated as a result of fraud. (ISA (NZ) 240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the [*general purpose financial report/performance report*]. (ISA (NZ) 240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's [*general purpose financial report/performance report*] communicated by employees, former employees, analysts, regulators or others. (ISA (NZ) 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing a

⁴⁰ If the auditor has included other matters relating to the responsibilities of those charged with governance in the audit engagement letter in accordance with ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, consideration may be given to including these matters in the written representations from those charged with governance.

[*general purpose financial report/performance report*]. (ISA (NZ) 250)

- 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. (ISA (NZ) 550)
- We will provide the final version of the documents determined to comprise the annual report to the auditor when available, and prior to its issuance by the entity.⁴¹ (ISA (NZ) 720 (Revised))
- [Any other matters that the auditor may consider necessary.]

Governing body member

Governing body member

⁴¹ This is only required when the other information is not available until after the date of the auditor's report.

Appendix 6

(Ref: Para. A65)

Illustration of Independent Auditor's Report on the general purpose financial report, including service performance information

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a general purpose financial report/performance report of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework⁴². The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).
- The general purpose financial report/performance report is prepared by management of the entity in accordance with a general purpose framework.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the general purpose financial report/performance report in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To Appropriate Addressee

Opinion

We have audited the *[general purpose financial report/performance report]* of ABC [entity], which comprise the statement of financial position as at December 31, 20X1, and the *[entity information]*, *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, statement of cash flows and *[service performance information/statement*

⁴² The general purpose financial report may be referred to as a performance report and include entity information, according to the requirements of the applicable financial reporting framework.

of service performance] for the year then ended, and notes to the financial statements, including a summary of significant accounting policies [*on pages x to xx*].

In our opinion the accompanying [*general purpose financial report/performance report*] presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the [entity] as at December 31, 20X1, and (of) its [*entity information*], financial performance, cash flows and service performance for the year then ended in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

[For a long-form report, include a separate section, under an appropriate heading, for example:

- Underlying facts and information about the entity’s reporting process (e.g., the maturity of the entity’s reporting process compared to others in the industry).
- The source of the compilation methods, and whether they are externally established.
- Any significant interpretations made in selecting what service performance to report on or applying the entity’s compilation methods in the circumstances.
- Whether there have been any changes in the entity’s compilation methods (e.g., changes in the performance measures used).
- Findings or recommendations for improvements to the service performance information.
- Any other matters the auditor considers necessary to meet the needs of users.]

Basis for Opinion

We conducted our audit of the [*general purpose financial report/performance report*] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the general purpose financial report/performance report and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 1 in Appendix 2 of ISA (NZ) 720 (Revised).]

Responsibilities of Those Charged with Governance for the General Purpose Financial Report/Performance Report

Those charged with governance are responsible on behalf of the [entity] for:

- (a) the preparation and fair presentation of the [general purpose financial report/performance report] in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple*

Format Reporting – Accrual (Not-for-profit)] issued by the New Zealand Accounting Standards Board, and

(b) the reporting process followed and the compilation methods adopted that are suitable in order to prepare service performance information in accordance with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]*;

(c) for such internal control as those charged with governance determine is necessary to enable the preparation of the *[general purpose financial report/performance report]* that is free from material misstatement, whether due to fraud or error.

In preparing the *[general purpose financial report/performance report]*, those charged with governance are responsible for assessing the [entity's] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the [entity] or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the General Purpose Financial Report/Performance Report

Our objectives are to obtain reasonable assurance about whether the *[general purpose financial report/performance report]* as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate or collectively, they could reasonably be expected to influence the decisions of users taken on the basis of this *[general purpose financial report/performance report]*.

A further description of the auditor's responsibilities for the audit of the *[general purpose financial report/performance report]* is located at the XRB's website at <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/>.

Paragraph 41(b) of ISA (NZ) 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report.

Paragraph 41(c) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A57.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/>.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the *[general purpose financial report/performance report]*, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and

appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [Entity's] internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate whether the selected service performance and the related compilation methods adopted are suitable so as to result in service performance information that is in accordance with the [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)];
- The overall presentation, structure and content of the general purpose financial report and whether the general purpose financial report represents the underlying transactions, events and service performance in accordance with Public Benefit Entity Standards in a manner that achieves fair presentation;
- The consistency of the information reported in the financial statements and the service performance information.
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the [general purpose financial report/performance report] or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity] to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Appendix 7

(Ref: Para. A75)

Illustrations of Auditor's Reports with Modifications to the Opinion with Respect to the Service Performance Information

- Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information.
- Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information.
- Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information.
- Illustration 4: An auditor's report containing a qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements.
- Illustration 5: An auditor's report containing a disclaimer of opinion due to the loss of records about multiple elements of the general purpose financial report.

Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the *[general purpose financial report/performance report]* of ABC [entity], which comprise the statement of financial position as at December 31, 20X1, and the [entity information], *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, statement of cash flows and *[service performance information/statement of service performance]* for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying *[general purpose financial report/performance report]* on pages *x to xx* presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the [entity] as at December 31, 20X1, and (of) its [entity information], financial performance and its cash flows for the year then ended in accordance with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Qualified Opinion on the Service Performance Information

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects (or *gives a true and fair view of*) the service performance of the [entity] *[on pages x to xx]* for the year ended December 31, 20X1 in accordance with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion on the Service Performance Information

[As reported in the service performance information on page *xx*, the entity has identified its service performance as *[describe improvements reported or description of the difference that the entity has made]* and measured this performance by *[list performance measures and/or descriptions reported]* to report its service performance. The entity has not been able to provide evidence of its role in those particular improvements and therefore should not have reported this improvement.]

We conducted our audit of the *[general purpose financial report/performance report]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the [general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the *[general purpose financial report/performance report]* of ABC [entity], which comprise the statement of financial position as at December 31, 20X1, and the *[entity information]*, *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]* statement of cash flows and *[service performance information/statement of service performance]* for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying *[general purpose financial report/performance report]* on pages *x to xx* presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the [entity] as at December 31, 20X1, and (of) its *[entity information]*, financial performance and its cash flows for the year then ended in accordance with *[Public Benefit Entity Standards Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Adverse Opinion on the Service Performance Information

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on the Service Performance Information* section of our report the accompanying *[general purpose financial report/ performance report]* does not present fairly (or *does not give a true and fair view of*) the service performance of the [entity] *[on pages x to xx]* for the year ended December 31, 20X1 in accordance with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Basis for Adverse Opinion on the Service Performance Information

[As reported in the service performance information on pages ..., the entity has identified its service performance to include [list appropriate goods and services] and measured and evaluated this performance with reference to [describe performance measures and/or descriptions reported] to report its service performance. We do not consider that these performance measures will enable a meaningful assessment of the service performance of the entity for the year ended December 31, 20X1 to be made. Had the entity identified more meaningful performance measures, the service performance information would have been materially affected, reporting performance measures including xxx and linking to its responsibility for yyyy.]

We conducted our audit of the *[general purpose financial report/ performance report]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have

fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the [general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 7 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 7 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the *[general purpose financial report/performance report]* of ABC [entity], which comprise the statement of financial position as at December 31, 20X1, and the *[entity information]*, *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, statement of cash flows and *[service performance information/statement of service performance]* for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying *[general purpose financial report/performance report]* on pages *x to xx* presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the [entity] as at December 31, 20X1, and (of) its *[entity information]*, financial performance and its cash flows for the year then ended in accordance with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Qualified Opinion on the Service Performance Information

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects (or *gives a true and fair view of*) the service performance of the [entity] *[on pages x to xx]* for the year ended December 31, 20X1 in accordance with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion on the Service Performance Information

[Some significant performance measures of the entity, rely on information from third parties, such as *(give examples)*. The entity's control over much of this information is limited, and there are no practical audit procedures to determine the effect of this limited control. For example, *[describe performance measure and explain where information comes from that we are unable to independently test.]*]

We conducted our audit of the *[general purpose financial report/performance report]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the General Purpose Financial Report* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have

obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the [general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information]

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 4: Qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Qualified Opinion on the [General Purpose Financial Report/Performance Report/

We have audited the [*general purpose financial report/performance report*] of ABC [entity], which comprise the statement of financial position as at December 31, 20X1, and the [*entity information*], [*statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity*], statement of cash flows and [*service performance information/statement of service performance*] for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report the accompanying [*general purpose financial report/performance report*] presents fairly, in all material respects (or *gives a true and fair view of*) the financial position of the [entity] as at December 31, 20X1, and (*of*) its financial performance, cash flows and service performance information for the year then ended in accordance with [Public Benefit Entity Standards/*Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion

[As outlined on page xx of the [*general purpose financial report/ performance report*], [entity] has not applied the requirements of the [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] to its grant expenditure. We have been unable to obtain sufficient audit 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 expenses*]; 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.]

We conducted our audit of the [*general purpose financial report/performance report*] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

Other Information [or another title if appropriate such as “Information other than the [general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report /Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 5: Disclaimer of opinion due to the loss of records about multiple elements of the general purpose financial report/performance report

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Disclaimer of Opinion

We were engaged to audit the *[general purpose financial report/performance report]* of ABC [entity], which comprise the statement of financial position as at December 31, 20X1, and the *[entity information]*, *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, statement of cash flows and *[service performance information/statement of service performance]* for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying *[general purpose financial report/performance report]* of the [entity]. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this *[general purpose financial report/performance report]*.

Basis for Disclaimer of Opinion

As stated in noteon page..... of the *[general purpose financial report/performance report]*, a fire at the [entity]'s office destroyed many of the accounting records. The *[general purpose financial report/performance report]* consequently includes a number of material amounts based on estimates. For this reason, we have been unable to confirm or verify [describe the balances affected, for example, accounts receivable, accounts payable and within the service performance information describe the service performance reported]. As a result of this matter, we were unable to determine whether any adjustments might have been found to be necessary in respect of recorded or unrecorded amounts, and the elements making up the statement of comprehensive revenue and expense, statement of changes in net assets/equity, statement of cash flows and the *[service performance information/statement of service performance]*.

Other Information [or another title if appropriate such as "Information other than the *[general purpose financial report/performance report]* and auditor's report thereon"]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information]

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor's Responsibilities for the Audit of the [General Purpose Financial

Report/Performance Report]

Our responsibility is to conduct an audit of the [*general purpose financial report/performance report*] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this [*general purpose financial report/performance report*].

We are independent of the [*entity*] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interest in, the [*entity*].

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate*]

[*Auditor Address*]

[*Date*]

Conforming Amendments to Other Standards

New text is underlined.

Conforming amendments to XRB Au1 *Application of Auditing and Assurance Standards*

Appendix 2 lists the International Standards on Auditing (New Zealand) to be applied in conducting audits of historical financial information.

Appendix 2A will be added as follows:

Appendix 2A

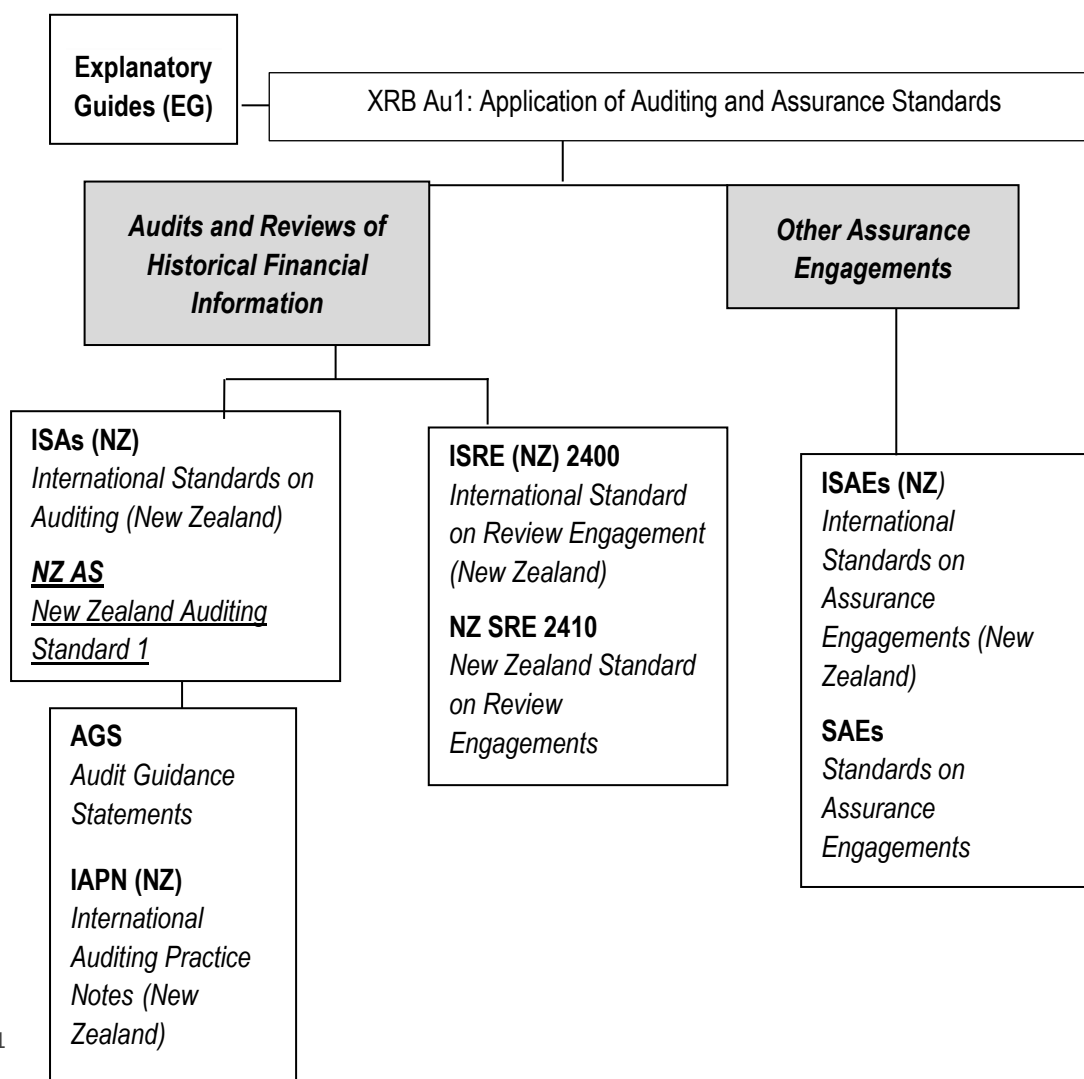
Auditing Standards (New Zealand)

This appendix is an integral part of the Standard

This appendix lists the Auditing Standards (New Zealand) to be applied in conjunction with the International Standards on Auditing (New Zealand) in conducting an audit of general purpose financial reports which comprise the financial statements and service performance information.

NZ AS 1 The Audit of Service Performance Information

Appendix 6 Overview of Auditing and Assurance Standards of the XRB is to be amended as follows:



ACCOMPANYING ATTACHMENT: CONFORMITY TO INTERNATIONAL AND AUSTRALIAN STANDARDS ON AUDITING

This conformity statement accompanies but is not part of NZ AS 1.

Conformity to International Standards on Auditing

There is no equivalent International Standard on Auditing (ISA), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Comparison with Australian Auditing Standards

There is no equivalent Australian Auditing Standard, issued by the Australian Auditing and Assurance Standards Board (AUASB).

Analysis of all feedback received in response to NZAuASB ED 2017-2 Audit of service performance information

Formal submissions received are available on the [XRB website](#). (and were included in the February meeting papers)

Notes from the Auckland and Wellington roundtable meetings, and the joint sub-committee meeting with NZASB members are available on request – these comments have been included under the appropriate sections of this analysis.

Auckland roundtable participants: Wayne Tuakiri, Ann Tod, Darren Wright (William Buck), Liam Sheridan (Foundation North), Vida Botes (Uni of Waikato), Craig Fisher and John Kensington in attendance.

Wellington roundtable – list of participants available separately – included a strong public sector contingent including a number of Audit NZ and OAG staff. Ian Marshall in attendance.

Key – green highlighting indicates support

Red highlighting flags a concern

Overarching comments:

Respondent	Comment	Staff Response to the comment
BDO	<p>We note that the New Zealand financial reporting frameworks applicable to public benefit entities are unusual in that they require (or soon will require) the preparation of service performance information where a general purpose financial report is prepared, which results in a requirement for such information to be audited where there is a requirement for the audit of a general purpose financial report.</p> <p>We further note that ISAs only contemplate the audit of historical financial information and do not contemplate the audit of other information, such as service performance information.</p> <p>Given those factors, BDO considers it appropriate for the NZAuASB to develop a New Zealand auditing standard on the audit of service performance information.</p>	Support for approach taken noted.

	We consider that such a standard should be consistent with the format and tone of ISAs to the greatest extent possible. Further, we consider that the overarching approach to the development of such a standard should be to provide guidance on how ISAs should be applied to the audit of service performance information, rather than creating new requirements. We note that this is the approach that the NZAuASB has taken to the development of the Exposure Draft.	
BDO	We further consider that a New Zealand standard on the audit of service performance information should strike a balance between being sufficiently directive to enable consistent application, while still adopting the principles-based approach of ISAs, so as not to limit the exercise of auditor judgement. We consider that the Exposure Draft may not have entirely achieved this balance, but may instead be, in part, more prescriptive than is appropriate.	Note concern that the ED is more prescriptive than appropriate. Revisions reduce the number of requirements.
BDO	<p>Conclusion</p> <p>We support:</p> <ul style="list-style-type: none"> a) The development of a New Zealand auditing standard on the audit of service performance information b) The overall approach taken in the Exposure Draft of aligning the format of the proposed New Zealand auditing standard with the format of ISAs to the extent possible c) Structuring the proposed standard so that it provides guidance on how ISAs should be applied to the audit of service performance information, rather than creating new requirements. <p>However we consider that the proposed standard may in places be more prescriptive than is necessary to achieve a balance between being sufficiently directive to enable consistent application, while still adopting the principles-based approach of ISAs, so as not to limit the exercise of auditor judgement.</p>	Noted.
Staples Rodway	We support the development of a domestic auditing standard dedicated to service performance information, with separate development of a review	Support for approach taken

	<p>engagement standard at a later stage. We consider that a dedicated auditing standard will help reinforce the need to undertake the audit of the service performance information and the audit of the financial statements in a concurrent manner.</p> <p>Overall, we consider that the high-level, principles based approach taken in the ED is appropriate. We commend the NZAuASB for the quality and depth of the application guidance and illustrative examples included within the ED. These will be instrumental in assisting auditors to apply the new standard. We are particularly supportive of the two-step approach to the audit of service performance information and consider that the audit report should include explicit opinions on each of these steps. In our view this will help reduce the expectation gap and may rebalance the roles of preparer (responsible for adopting suitable criteria) and the auditor (responsible for assessing the suitability of this criteria).</p>	<p>Support for level of guidance and examples</p> <p>Support for two step approach noted. Prefers an explicit opinion on the suitability of criteria (considered at the April meeting).</p>
PwC	<p>We support the inclusion of the service performance information, which constitutes part of an entities general purpose financial reporting under Public Benefit Entities (PBE) standards, in the scope of an audit. The nature of the entities reporting in accordance with the standard are managing funds received from public sources and service performance information facilitates greater transparency for the resource provider. However, we do have some comments relating to the impacts of the exposure draft driven by the current requirements set out in the financial reporting framework, principally:</p> <p><i>Cost/Benefit</i> – The PBE conceptual framework contemplates the cost/benefit balance as an important consideration for governing bodies and management when reporting financial information. The range of entities captured by the requirements set out in the exposure draft is very extensive, given the threshold of \$1 million of operating expenses set out in XRB A2. In our experience, many smaller PBE entities have limited financial resource and capability and they are likely to find the preparation of service performance</p>	<p>Concern noted. To be shared with the XRB Board and NZASB.</p> <p>Establishing the preparation requirements and/or who is required to have an audit is beyond the mandate of the NZAuASB.</p> <p>The NZAuASB is concerned with establishing requirements when an audit is performed.</p> <p>The NZAuASB was mindful that where an audit is performed, the quality of the work should not undermine the quality of the audit of the financial statements.</p>

	<p>reports challenging, given the level of judgement involved and customised nature of the information. The cost of designing and implementing relevant performance measures, including relevant controls around those performance measures, and capturing and monitoring the relevant data may be prohibitive.</p> <p>For smaller organisations, this may result in the cost of an audit of General Purpose Financial Reporting (GPFR) that includes service performance information being disproportionately high in comparison with, for example, the cost of an audit of the historical financial information.</p> <p><i>Sophistication</i> – In our experience the level of sophistication of financial reporting systems, segregation of duties and other relevant controls that exist in smaller entities are often lacking.</p> <p>In order that an auditor might opine on whether the information in the statement of service performance is presented fairly, the extent of audit work necessary is significant and may be inhibited by the lack of verifiable information, lack of controls around the information gathered, and degree of sophistication that exists within the entity for monitoring information. This may result in a significant number of qualified audit reports, in contrast to the intention of the standard.</p> <p>Further, the measures of performance for some entities may not be verifiable from an audit perspective due to an inability to confirm completeness of that data or the data inputs. For some entities, they may not have relevant verifiable performance measures and may report on matters that are not relevant to users simply to meet the reporting requirements.</p> <p><i>Stakeholders</i> – PBE and NFP entities often rely heavily of donations and grant funding. The increased cost of auditing the statement of service performance</p>	<p>Concern noted</p>
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	<p>may further restrict the funds available to these entities. The level of additional audit costs may result in an unintentional redirection of funds away from the primary objectives of the entity.</p> <p>Additional guidance should be developed in order to facilitate comparability across sectors. This will be important to help reduce both the cost of preparing and auditing service performance information and to allow resource providers to maximise the benefit of comparability.</p> <p>To support smaller PBE and NFP entities and create flexibility for smaller organisations in relation to the standard we believe some additional consideration of the impact of this standard due to the size criteria as set out in XRB A2 is required. Some possible alternative considerations by the XRB might include:</p> <ul style="list-style-type: none"> • Raising the minimum threshold for entities requiring an audit of service performance information; • Enabling the governing body / members to opt out of an audit of service performance information; • Treating service performance information as ‘other information’ where no assurance conclusion is given, but that the information is read by the auditor and a statement is made that the information is not considered to be materially inconsistent with the financial statements or information obtained in the conduct of our audit. 	<p>Noted - The NZAuASB has on many occasions flagged the need for additional guidance. The NZASB has an active project to develop guidance and the NZAuASB will continue to discuss how best to produce additional guidance for practitioners. (Add project for guidance to NZAuASB workplan).</p> <p>Concern noted. While legal requirements mandate the audit of “financial statements”, there remains a legislative requirement for the SPI to be audited. These alternatives are beyond the mandate of the NZAuASB but have been shared with the XRB board.</p>
Auckland roundtable	<p>Vera expressed concern at a broader level – i.e. whether service performance information should be subject to audit?</p> <p>Wayne Tukiri concerned re over reliance on audit report - whether this further opens up the deep pocket syndrome. This is a judgemental area – raises litigation risk (however discussion raised that litigation risk is possibly lower in the NFP sector).</p>	<p>Concern noted – similar to PwC comment above.</p> <p>Concern noted.</p>

	The ongoing existence of entities depends on funding – i.e. whether you are meeting funding agreement targets.	
OAG	<p>Thank you for the opportunity to comment on the proposed auditing standard on the audit of service performance information¹ (the ED). We acknowledge that preparing an auditing standard on this topic is difficult. We also acknowledge the work the NZAuASB has carried out in preparing the ED for comment.</p> <p>We are very interested in the audit of service performance information. We have consulted widely within the Office to prepare our submission.</p> <p>As an Office, we have been auditing service performance information reported by public sector entities for more than 25 years. In the absence of any published accounting or auditing standards on this topic for much of that time; we have had to develop our own auditing standard and accompanying guidance for auditors.</p> <p>Currently, audits of performance reports carried out by or on behalf of the Auditor-General must comply with the requirements of AG-4: <i>The audit of performance reports (AG-4)</i>.</p> <p>In my view, AG-4 is fit-for-purpose for the audit of service performance information in the public sector. I am keen to ensure that a new auditing standard issued by the NZAuASB will not undermine the quality of audit work in the area of service performance information. For the Auditor-General to be comfortable with withdrawing AG-4 in the future, they would need to be satisfied that any new standard issued by the NZAuASB is also fit-for-purpose in the public sector.</p>	<p>Noted.</p> <p>Staff prepared a mapping document to compare the ED to AG-4. Staff conclusion was that the matters addressed in the ED were substantively the same as AG-4, albeit that AG-4 is public sector specific with a focus on forecast performance. In addition, AG- 4 has no reference to ISAE 3000. Direct references to ISAE 3000 have been removed in the amended draft.</p>
OAG	In our submission, we have identified several significant matters that we believe need to be addressed in the ED (see Attachment 1). We also identified some minor matters as part of our review of the ED. The minor matters have not been included	

¹ Throughout this submission, we have used the term service performance information, as this is consistent with PBE FRS 48. It is our view, however, that service performance information is only one subset of non-financial performance reporting.

	<p>in our submission; partly because many of them should be resolved by responding to the significant matters outlined in Attachment 1.</p> <p>Given the significance of the matters identified in this submission, it is our view that a lot of redrafting will be required, and the ED may need to be re-exposed for further comment before publication.</p> <p>As noted above, a workable standard for the audit of service performance information is important to us, particularly as this may influence the way in which we audit many significant and complex entities in the public sector. I am happy to support the continued development of the ED by making Office staff available to further elaborate on the matters raised in this submission, if that would be helpful.</p>	<p>NZAuASB have discussed the need for a fatal flaw review.</p> <p>Mapping document was shared with OAG staff.</p>
OAG	<p>1. Consistent use of terminology in External Reporting Board standards and guidance</p> <p>The development of this submission is based on our view that there needs to be consistent concepts and terminology used for the preparation of performance information. Currently, there isn't the level of consistency that we would like to see between the New Zealand Accounting Standards Board (NZASB) standard, <i>PBE FRS 48: Service Performance Reporting</i> (PBE FRS 48), the Tier 3 and Tier 4 standards, and the ED.</p> <p>Consistency across financial reporting standards would make it easier to have an auditing standard that works across the tiers.</p> <p>For the purposes of our submission, we have considered and referred to the concepts and terminology in PBE FRS 48, rather than the Tier 3 and Tier 4 standards.</p> <p>International Standards on Auditing which have been given effect in New Zealand must be drafted in such a way that they can be compatible with all relevant international standards, which may use differing terminology. In contrast, the auditing standard in relation to auditing service performance</p>	<p>Concern noted.</p> <p>The NZAuASB discussed the dual role of the auditor at the April meeting:</p> <ol style="list-style-type: none"> 1. To determine whether the entity has appropriately applied the qualitative characteristics and pervasive constraints of information; and 2. To determine whether the "criteria" are suitable (for the purpose of performing an audit). <p>The issues paper considers the advantages and disadvantages of linking to the QCs in PBE FRS 48. Staff recommendation is to continue to refer to the assurance framework terminology.</p>

	<p>information provides the NZAuASB with a unique opportunity to ensure there is complete alignment between the accounting standard and the auditing standard.</p> <p>As a result, for example, the qualitative characteristics referred to in paragraph A17 of the ED should be consistent with the qualitative characteristics used in paragraph 9 of PBE FRS 48</p> <p>Recommendation</p> <p>On the basis of the above, we recommend:</p> <ul style="list-style-type: none"> • The terminology in the ED should be consistent with the terminology used in PBE FRS 48. • That any other source of authoritative guidance issued by the NZASB or the NZAuASB on the preparation, and the audit or review, of service performance information use consistent terminology to that used in PBE FRS 48. 	
	<p>2. ISA (NZ)s should be amended to reflect the audit of service performance information</p> <p>In order to emphasise the concurrent nature of the audit of financial and service performance information, we consider that any “Requirements” and “Application and Other Explanatory Guidance” which do not directly relate to the audit of service performance information, and that are already addressed in other ISA (NZ)s, should be removed from the ED.</p> <p>For example, the references to “Special Considerations – Audits of Groups”, “Using the Work of an Auditor’s Expert” and “Using the Work of Another Practitioner” should be removed to enhance the focus of the ED on those matters that directly impact on the audit of service performance information.</p> <p>We agree that auditors will need to extend the scope of their audit work in these and other core areas, in order to capture service performance information</p>	<p>The NZAuASB has previously debated and rejected the idea of reopening the ISAs (NZ). The majority of the submissions are supportive of the approach taken.</p> <p>The matter of whether specific paragraphs (as suggested here) can be removed from the standard was agreed in April. Ways to shorten the standard have been explored as well what guidance is needed and where this guidance is best positioned.</p>

	<p>concurrently with financial information. In our view, this is best done through making consequential amendments to the underlying ISA (NZ)s². This approach will reflect the desirability of an integrated approach to the audit of financial and service performance information.</p> <p>This reflects our view that the ED should be limited to the small number of relatively high level requirements which are either new to the audit of service performance information, or significantly different or more complicated. These include, for example the concept of materiality in the context of auditing service performance information and the evaluation of misstatements.</p> <p>Recommendation</p> <p>To emphasise the concurrent nature of the audit of financial and service performance information, the associated ISA (NZ)s should be amended appropriately.</p>	<p>The NZAuASB agreed not to reopen the ISAs, to avoid multiple NZ paragraphs in the ISAs (NZ) that apply only to certain sectors. Rather including the relevant requirements in a separate standard was preferred.</p>
	<p>3. The ED is difficult to understand</p> <p>The ED is difficult to read. We are concerned that, if we with many years' practical experience in auditing non-financial performance information, struggle to clearly understand and then apply the ED, auditors who are relatively inexperienced will struggle more.</p> <p>As a general observation, it is our view that the presentation of the ED can be improved. For example, the main body of the ED should include only the essential requirements; that is the procedures that an auditor <i>must</i> perform. Application and Other Guidance should be located in the Appendix so that it is clear that it is guidance, rather than mandatory.</p>	<p>Concern noted</p> <p>The NZAuASB has reduced the number of requirements, streamlined the wording and worked to simplify the draft where possible.</p>

² This is something that auditors in the public sector in New Zealand are used to. The Auditor-General issues his own auditing standards, many of which extend the scope of existing ISA (NZ)s to cover the audit of service performance information.

	<p>In addition, while we acknowledge that the headings used in the ED are intended to align with existing ISA (NZ)s, it is our view that some the headings could be drafted more plainly. For example <i>Preconditions for an audit of the General Purpose Financial Report</i>, and <i>Agreement on Engagement Terms</i> could be grouped together under a heading of <i>Planning and Pre-engagement</i> along with other relevant sections.</p> <p>Service performance information is different in nature to financial information. As a result, some audit processes and procedures that are applied when auditing financial information cannot be directly applied to service performance information. This introduces some complexities that need to be clearly explained to enable practitioners to consistently apply the ED.</p> <p>Recommendation The presentation of the ED could be improved by:</p> <ul style="list-style-type: none"> • Limiting the “Requirements” section to a small number of relatively high level requirements that directly relate to the audit of service performance information, and that the auditor must comply with; and • Including more practical guidance in the “Application and Other Explanatory Material” that illustrates how the auditor might apply a requirement. 	<p>The section on preconditions has been moved and merged with obtaining an understanding of the entity.</p> <p>The number of requirements has been reduced. Limited additional guidance included. Practical examples to be developed in separate guidance given criticism of length of the proposed standard.</p>
	<p>4. Scope of the ED We note that service performance information is described in paragraph 2 of PBE FRS 48 as follows:</p> <p><i>“Service performance information is information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information” (emphasis added).</i></p> <p>We also note that this description of service performance information does not prohibit an entity from including performance information that is wider in scope and may be focused on:</p>	<p>This sentence from PBE FRS 48 has been included in the application material, refer para A1. The scope of the ED was intended to reflect the requirements of PBE FRS 48.</p> <p>PBE FRS 48 requires that the service performance information must provide users with sufficient contextual information to enable an understanding of the entity, what it intends to achieve and what it has done inworking towards its aims and objectives. The NZASB added a requirement (para 29 of PBE FRS-48) that requires an entity to clearly identify the</p>

	<ul style="list-style-type: none"> • the extent to which the entity has made progress towards achieving its aims and objectives; • the contribution that the entity (along with other entities) has made towards the achievement of its aims and objectives; • the entity's capability or readiness to respond to events for which it was established; or • other categories of performance that would not generally be regarded as service performance information. <p>Our experience is that including such information leads to more meaningful/fuller performance reporting. Entities should be encouraged to include "supporting contextual information" as part of their service performance information, wherever possible.</p> <p>Recommendation The ED should clarify under the heading "Scope of this NZ AS":</p> <ul style="list-style-type: none"> • That an entity may choose to report supporting contextual information that is not captured within the description of service performance information in PBE FRS 48; and • Where such information is included in the entity's service performance information, and the entity requests the auditor to audit this information, the auditor should do so by reference to the ED. 	<p>service performance information presented in accordance with the Standard.</p> <p><i>If an entity includes information in addition to PBE FRS 48 and does not identify this information as part of its service performance information, by definition this is other information under the proposed auditing standard. If an entity or user require this information to be audited, this should be agreed to and the scope of the audit would be adjusted accordingly.</i></p> <p>PBE FRS 48 encourages an entity to report against targets and explain variances. We consider that this will be SPI under the standard and would be within the scope of the audit.</p>
	<p>5. Service performance criteria We think the use of the term "<i>service performance criteria</i>" within the ED is problematic, for the reasons set out below.</p> <p>Inappropriate alignment with ISAE (NZ) 3000 The description of "<i>service performance criteria</i>" used in the ED appears to have been selected in order to align with the description of criteria in paragraph 12(c) of ISAE (NZ) 3000 (Revised). However, we consider that this reference is not helpful, for two reasons.</p> <p>Firstly, the ED has been developed as an auditing standard, rather than under the umbrella of ISAE (NZ) 3000 (Revised). This is a deliberate decision that has</p>	<p>The NZAuASB discussed how the overarching "criteria" for the engagement is PBE FRS 48. However due to the principled nature of the standard, and the wide range of subject matter that the standard addresses, the applicable criteria for each engagement will be the specific performance measures and descriptions used to evaluate its service performance, applied to its circumstances. (i.e., the</p>

	<p>been determined after much consideration. Furthermore, paragraph A10 specifically excludes ISAE (NZ) 3000 (Revised) from being applied by auditors to service performance information. As a result of these factors, we believe that it is not appropriate to include descriptions that are drawn from ISAE (NZ) 3000 (Revised).</p> <p>Secondly, ISAE (NZ) 3000 (Revised) was developed in order to assist practitioners who undertake a variety of assurance engagements. In these situations, it is often necessary to develop bespoke criteria that are specific to the nature of the assurance engagement, as there may not be a generally accepted set of principles already in place. The development of bespoke criteria is not required when preparing and auditing service performance information; these are set out in PBE FRS 48.</p> <p>Lack of conceptual clarity We found the term “<i>service performance criteria</i>”, and its definition “the benchmarks used to measure or evaluate the entity’s service performance”, confusing.</p> <p>PBE FRS 48 does not use the term “<i>service performance criteria</i>”, but does require preparers of service performance information to apply the qualitative characteristics of information and the pervasive constraints on information identified in the PBE Conceptual Framework. One of the key principles underlying PBE FRS 48 is that the service performance information is appropriate and meaningful, which we agree is important.</p> <p>In our view, the concepts as set out in PBE FRS 48, are clear and easy to understand. We believe that the ED would be less confusing, if the concepts within it were consistent with the concepts already set out in PBE FRS 48 and the PBE Conceptual Framework.</p> <p>It is our view that if the concept of “service performance criteria” is removed from the ED, and instead, the auditor has to assess the appropriateness of an</p>	<p>NZAuASB agreed to retain the approach that there is a need for a sub-layer of criteria to be identified by the preparer and then evaluated by the auditor).</p> <p>In order to recognise the OAG’s concern, the Board agreed to drop the term “criteria” but to replace the term with “reporting policies and procedures” and continues to debate the best words to articulate step 1– i.e. retain the same approach but to use different words to describe the process. The Board agreed that there are ways to make use of other terminology to assist practitioners to better understand the standard, as it is clear that there is a misunderstanding of the term “criteria”.</p> <p>The need for framework neutrality is explored in the issues paper.</p>
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	<p>entity's reported service performance (with reference to the qualitative characteristics and the pervasive constraints described in paragraphs 9 and 10 of PBE FRS 48). This would remove our confusion around the use of the term "service performance criteria".</p> <p>Recommendation</p> <p>The ED should be amended to:</p> <ul style="list-style-type: none"> • Remove all references to "service performance criteria". • Use consistent terminology to describe what an entity has chosen to use as indicators of its performance as "performance measures". This is the terminology used in PBE FRS 48 - particularly in paragraphs 20 to 27. 	
	<p>6. The auditor's evaluation of the suitability of an entity's performance information</p> <p>The ED (in paragraph 11) requires the auditor to evaluate whether the service performance criteria adopted by the entity:</p> <ul style="list-style-type: none"> • Are suitable; and • Are available to intended users. <p>For the reasons explained above, it is our view that the reference to criteria should be replaced by a reference to the qualitative characteristics and pervasive constraints referred to in paragraphs 9 and 10 of PBE FRS 48.</p> <p>It is also our view, that the requirement in paragraph 11 should be amended to require the auditor to evaluate the suitability of the entity's performance information against the qualitative characteristics and pervasive constraints. There is no necessity for the auditor to evaluate if the qualitative characteristics and pervasive constraints are publicly available, because they are specified in paragraphs 9 and 10 of PBE FRS 48. The measures used by the entity to assess its performance are reported, and therefore should be available to users of the service performance information.</p> <p>When should the auditor evaluate the suitability of an entity's performance information?</p>	<p>The importance of making the criteria available to the user is noted in the submission by the AUASB technical team.</p> <p>The entity's disclosure of the judgements made is a key part of making the approach to reporting of SPI clear to intended users. The Board agreed that the auditor shall evaluate whether the reporting policies and procedures are available to users through the disclosures made by the preparer. (The best way to articulate this requirement is considered in the amended draft).</p> <p>The evaluation of the suitability of the SPI has been moved and merged with the requirements to obtain an understanding of</p>

	<p>In our view the ED should include, within the Application and Other Explanatory Material, additional guidance to auditors on when they should carry out their work to evaluate the suitability of performance information.</p> <p>In our experience, the auditor should carry out their evaluation as soon as the entity has completed its initial processes in deciding the performance information it intends to report and how it intends to present that information. The auditor's evaluation will normally be carried out once the auditor has carried out sufficient work to understand the entity in accordance with ISA (NZ) 315 (Revised): <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment</i>.</p> <p>The purpose of carrying out the work at this time is so the auditor can communicate any concerns to the entity in sufficient time to enable the entity to amend its proposed performance information, if considered necessary.</p> <p>In the public sector, many entities are required to identify the performance measures against which actual performance will be assessed prior to the commencement of the reporting period. It is best practice for the auditor to complete their evaluation of the suitability of performance measures shortly after. This may occur more than 12 months before the audit of the service performance information is completed.</p> <p>How does the auditor evaluate the suitability of performance information?</p> <p>In our view, the ED should include, in the Application and Other Explanatory Material, guidance to auditors of a more practical nature on how they might evaluate the suitability of performance information.</p> <p>Our expectation is that the auditor will evaluate the suitability of the entity's performance measures against the qualitative characteristics and pervasive constraints.</p> <p>Ideally, the entity will have clearly identified the reasons that support the selection of its intended performance information. We would also expect the entity to have documented this analysis, which will provide a basis for the auditor's evaluation.</p> <p>Typically, the qualitative characteristics will form the basis for the auditor's evaluation. However, the qualitative characteristics are often in conflict. For instance, "relevance" often conflicts with "faithful representation" and</p>	<p>the entity, given that for the audit of the SPI, the engagement to audit the GPFR would still continue.</p> <p>Additional application material is added to clarify that this is an iterative process. The ED is clear that any concerns should be expressed to the preparer as soon as possible.</p> <p>Ideally this would be useful for the auditor. Any guidance on the balance between the qualitative characteristics and the pervasive constraints of information should be aimed at the preparer – it is the preparers role to meet these requirements and the auditor's role to audit what has been prepared by the preparer.</p>
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	<p>“verifiability”. The conflict demands a high level of professional judgement to be exercised by both the preparers of the service performance information, and by the auditors.</p> <p>“Relevance” remains a critical qualitative characteristic when the auditor carries out their evaluation of suitability. Typically “relevance” is evaluated against the entity’s purposes, as expressed in its founding documents or, in the case of public sector entities, in legislation.</p> <p>The outcome of the auditor’s evaluation might be a conclusion that:</p> <ul style="list-style-type: none"> a) All of the aspects of service performance information are suitable and there are no obvious omissions; or b) Although all aspects of performance information are included, with no obvious omissions, there may be additional measures to be included that the auditor would not regard as being essential; or c) The performance measures the entity has chosen to report against are suitable, but the auditor assesses that there are some important aspects of the entity’s performance for which no suitable measures have been included. This situation, in the view of the auditor, could result in the performance report presenting a misleading picture of the entity’s performance; or d) The performance measures to be reported are evaluated by the auditor to be suitable whilst others are assessed to be unsuitable. In this situation the auditor concludes that the performance report gives a misleading impression of the entity’s performance; or e) All, or the majority, of the performance measures proposed to be reported by the entity are evaluated by the auditor to be unsuitable. <p>Where the auditor encounters situations c) to e) above, the appropriate response should be to communicate their conclusions to the entity with an expectation that the entity will make changes to their performance information. If the entity makes no changes to their performance information in these circumstances, the auditor will need to assess the effect on the audit report.</p>	<p>Captured in ED para:</p> <ul style="list-style-type: none"> a)29(a) b)unclear how this differs – captured in 29(a) c) added additional guidance. d) illustration 2 of the modified opinions covers this. e) would be an extension of illustration 2 therefore unclear if need to repeat given criticism of length. <p>This is the approach reflected in the ED.</p>
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	<p>In response to situation b) the auditor may communicate their view to the entity that some of the performance information to be reported is unnecessary. It is unlikely that the auditor would need to modify their audit report in this situation.</p> <p>In addition, the auditor may be concerned that some, or all, of the performance measures selected by the entity for inclusion in its service performance information are not capable of verification given the inadequacy of the entity's systems and processes. This is a matter that the auditor should communicate to the entity.</p> <p>Depending on the entity's response to the auditor's concerns, the auditor will make an initial evaluation of the impact of any deficiencies they have observed on the audit report.</p> <p>Recommendation</p> <p>The ED should include:</p> <ul style="list-style-type: none"> • A requirement for the auditor to evaluate the suitability of the entity's performance measures against the qualitative characteristics and pervasive constraints. • Include "Application and Other Explanatory Material" that provides greater clarity around: <ul style="list-style-type: none"> ○ When the auditor should evaluate the suitability of an entity's performance measures; and ○ How the auditor might evaluate the suitability of performance measures. 	<p>The advantages and disadvantages of referring to the QCs are considered in the issues paper.</p> <p>Application material has been added to clarify that this is an iterative process. This is judgemental. The suitability of the performance measures will be made with reference to the characteristics of suitable criteria in accordance with the assurance framework and the application material provides examples of the things that the auditor may consider in making such an evaluation.</p>
	7. Materiality in Planning and Performing the Audit	

	<p>Determining materiality in the context of the audit of performance information is difficult. Although the concept of materiality applies to performance information, its application is different when compared to the audit of financial information.</p> <p>In our view, the ED should include one requirement for the auditor to determine and document the materiality to be applied to the service performance information. The requirement should be supported by “Application and Other Explanatory Information” that provides practical guidance on how the auditor might apply the requirement.</p> <p>Based on our experience, the “Application and Other Explanatory Information” might usefully address the matters set out below. It might:</p> <ul style="list-style-type: none"> • Emphasise that assessing a performance measure to be suitable does not automatically mean that the performance measure is material. • Note that a material performance measure tends to exhibit characteristics that relate to: <ul style="list-style-type: none"> – the primary functions or purposes of the entity; – an activity that could be of significant national or community interest; – an activity that could be of significant interest to users of the service performance information; – an activity that is financially significant; – a function where there is a significant risk of performance failure by the entity; – an activity that could be a significant risk to the public (for example, the provision of health services); – errors or omissions that could significantly affect the reputation of the entity; and/or – an activity that may have a significant effect on management performance rewards. 	<p>Noted and agreed.</p> <p>The draft includes this as a requirement. Ways to reduce the level of prescription are included in the amended draft.</p> <p>The draft focuses on the risk of material misstatement (para 22 states that the auditor shall determine materiality for the purpose of assessing the risk of material misstatement). Added para 37 to remind the auditor to design and perform procedures for all material SPI. The changes to the materiality application material are highlighted in green in the amended draft.</p>
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	<ul style="list-style-type: none"> • State that materiality relates to both the performance measure and to the level of misstatement related to actual performance that is acceptable before the auditor regards the misstatement as misleading. • Note that there are some terms that apply to financial materiality and to performance information, and others that don't. For example: Materiality base: The concept of a materiality base applies to the audit of service performance information, but it can only be applied to each material performance measure because every performance measure uses a different basis to measure performance. Materiality level: The auditor will need to select a materiality level for each material performance measure beyond which a misstatement will be considered to be material. Materiality factor: The notion of a materiality factor, when assessing the material performance measures, is more likely to be embodied in the characteristics noted above. We would also observe that the concept of a materiality factor is not emphasised in ISA (NZ) 320. Performance materiality: Every performance measure has a unique measurement base. Therefore, the requirement for the auditor to establish performance materiality is not relevant to the audit of service performance information. In addition, paragraph A38 (b) refers to "... the materiality levels for the service performance information as a whole ..." The nature of service performance information means that there can be no materiality level for the service performance information as a whole. However, the auditor should record all of the misstatements that they identify during the course 	<p>We recommend deleting reference to performance materiality</p> <p>This reference is removed.</p>
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	<p>of their audit. The misstatements should be considered by the auditor and an assessment made as to whether the cumulative effect of the misstatements is that the entity's service performance information does not fairly reflect the entity's performance.</p> <ul style="list-style-type: none"> Indicate, for those reported performance measures that the auditor assesses not to be material, the minimum audit procedures to be carried out by the auditor. In our view such procedures are likely to be limited to reasonableness tests based on the auditor's knowledge of the entity. <p>Recommendation The ED should:</p> <ul style="list-style-type: none"> Include a requirement for the auditor to determine the entity's performance measures that are considered to be material; and Include "Application and Other Explanatory Material" that illustrates the application of this requirement. 	<p>Added para 37 to remind the auditor that irrespective of the assessed risk of material misstatement, the auditor shall design substantive procedures for all material SPI.</p>
OAG	<p>8. Introduction of new assertions</p> <p>Paragraph 38 of the ED requires auditors to identify the risk of material misstatement at the "<i>assertion level for material service performance information</i>". Paragraph A49 provides additional guidance in relation to the assertions, and introduces two new assertions in relation to service performance information.</p> <ul style="list-style-type: none"> - <i>Attributable to the entity</i> – the service performance reported by the entity includes only service performance that the entity has evidence to support its involvement with. - <i>Consistency</i> – service performance information is consistent with the prior period, or changes are justified and appropriately disclosed. <p>While we agree that these are important concepts to be considered by auditors, in our view, these are not assertions. Instead, we think they are more accurately described as being part of the qualitative characteristics of information.</p> <p>In our opinion, the assertion "attributable to the entity" is embodied in the qualitative characteristic of "relevance". Paragraph 9 (a) of PBE FRS 48</p>	<p>Concern related to attribution and consistency noted. Considered in issues paper.</p>

	<p>states that “<i>relevant information assists users in forming assessments about an entity’s accountability for service performance</i>”. The “attributable to the entity” assertion is implicit in this statement, although with a wider meaning, as it may capture performance that the entity has influenced or contributed to, and not just the performance that is attributable to the entity.</p> <p>In addition, there is a significant overlap between the “occurrence” and “Attributable to the entity” assertions. This overlap introduces a level of confusion.</p> <p>Similarly, the “consistency” assertion is embodied in the qualitative characteristic of “comparability”.</p> <p>We are concerned that there is no reference made to the “Classification” assertion in the context of service performance information. Service performance information requires a lot of judgement to be applied, by the entity and the auditor. As a result, it is important to have a good understanding of how the entity classifies activities. For example, if an entity reports response times to urgent call outs, it is crucial to know how the entity defines “urgent call outs”.</p> <p>Recommendation</p> <p>The ED should:</p> <ul style="list-style-type: none"> • Include the “Classification” assertion. • Remove the “Attributable to the entity” and “Consistency” assertions. 	
AUASB technical team	<p>We are pleased to have the opportunity to comment on the NZAuASB's ED 2017-2: <i>New Zealand Auditing Standard XX The Audit of Service Performance Information</i>. Overall, the Australian Auditing and Assurance Standards Board (AUASB) are very supportive of the leading role the New Zealand Auditing and Assurance Standards Board (NZAuASB) has taken in issuing an exposure draft on the audit of service performance information (SPI) under the New Zealand reporting framework as part of the General Purpose Financial Report (GPFR) for some Public Benefit Entities (PBE). The AUASB see the reporting and assurance of SPI as an important area for the PBE sector, and that the information needs and assurance requirements of the report users are at the forefront of this thinking.</p>	Support noted.

	<p>In formulating this response, the AUASB Technical Group (ATG) sought input from AUASB members at the November 2017 AUASB meeting. The views of those AUASB members who commented on this matter are reflected in this letter. We have also included specific comments to some of the questions in the ITC in Attachment 1. Additionally the AUASB Chair and Technical staff have been actively involved in the NZAuASB project to develop this standard through attending subcommittee meetings to monitor and provide feedback as the exposure draft has progressed, as well as consider any implications for the Australian reporting and assurance frameworks and the users of this type of information in the Australian jurisdiction.</p> <p>To begin, the ATG would like to highlight the way the NZ accounting and assurance standards complement each other, noting that in bringing their respective standards to fruition the NZASB and NZAuASB have been conscious of the need to align the different approaches taken by each Board in this area.</p> <p>As part of our review the ATG considered that the NZAuASB ED 2017-2 is applicable to an audit of SPI done in conjunction with the audit of the GPFR and therefore must be done in accordance with ISA (NZ) 700 (Revised).</p> <p>Specifically, our key concern is that the requirements for the preparer of the SPI outlined in PBE FRS 48, do not explicitly require a basis of preparation. This could result in the user of the SPI not fully understanding how the SPI was prepared. This also impacts the information on which the auditor bases their opinion, as required by ED 2017-2.</p> <p>Whilst we acknowledge PBE FRS 48 does require the preparer to disclose the significant judgements they applied to the preparation of the SPI, ED 2017-2 requires the auditor to opine on whether the service performance information adequately refers to or describes the entity's service performance criteria. We are concerned that for some NZ PBEs there is not necessarily going to be a formal performance framework in place which may mean the auditor has difficulty identifying and understanding the SPI criteria or framework against which it is opining.</p> <p>In the ATG's view it is not ideal that the proposed audit requirements and the disclosure in the auditor's opinion in relation to an entity's service performance criteria and evaluation of the criteria's suitability as part of the assurance practitioner's responsibilities, could be considered more detailed and specific in nature than the requirements for PBE preparers of the SPI under PBE FRS 48.</p> <p>Consequently, whilst we do not propose any changes to the ED for this purpose, we'd encourage the NZASB and NZAuASB to work together to produce additional guidance for preparers and auditors which specifies what disclosures are required by the SPI preparer to</p>	<p>Acknowledgement that the NZAuASB have been conscious of the need to align the different approaches noted.</p> <p>Concern raised that the preparer is not explicitly required to prepare a basis of preparation. This has been shared with the NZASB. Reference to transparency of the compilation methods may help.</p> <p>The NZAuASB have previously given similar feedback to the NZASB. The revised draft requires the auditor to evaluate whether the information provided by the preparer will make the basis of preparation clear to the user, and in so doing make the "criteria" available to the user.</p> <p>Support for the requirement to describe the entity's service performance criteria noted.</p>
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	<p>ensure the information can be audited appropriately, and any potential limitations of scope or incorrect audit conclusions are avoided.</p> <p>The ATG notes that the NZAuASB has considered the requirements of the ISAs (NZ) as well as the ISAEs (NZ) in developing this ED. Where applicable, requirements from ISAE (NZ) 3000 (Revised) have been included within the ED. We support this approach, which will avoid the need for the auditor to refer to multiple standards within the assurance framework when auditing the GPFR.</p>	
AUASB technical team	<p>On a different matter, because of the different reporting frameworks that exist in each of our respective jurisdictions, any new reporting standard for SPI in Australia would be highly unlikely to be part of the GPFR. Accordingly, any future assurance standard issued by the AUASB on SPI would probably be issued as a Standard on Assurance Engagements (e.g. ASAE 3000) under our Framework for Assurance Engagements. We highlight this as ED 2017-2 and any future Australian Assurance Standard on SPI may not necessarily be consistent because of where these engagements reside within the Assurance Framework. This means that if the AUASB were to develop an assurance standard on SPI or adapt the NZAuASB's proposed standard <i>The Audit of Service Performance Information</i> in future, there are likely to be differences between the two assurance standards, contrary to the current protocol that exists between the New Zealand External Reporting Board (XRB) and the AUASB which requires us to minimise the differences between auditing and assurance standards issued in Australia and New Zealand.</p>	Noted- support for relevance of ISAE 3000 noted.
CAANZ	<p>We welcome the opportunity to provide feedback on the Exposure Draft ("the ED"). We recognise the increasing prevalence of, and demand for, service performance information and commend the New Zealand Auditing and Assurance Standards Board (NZAuASB) efforts to establish an auditing standard as part of the framework for such reporting. We are supportive of the approach taken in the ED. Appendix A provides our responses to the specific questions raised in the ED.</p> <p>We note that under the Financial Reporting Strategy Parameters for the NZAuASB that domestic standards should only be developed where there is a gap in international standards, and not to replace an international standard. We appreciate that the NZAuASB has considered ISAE (NZ) 3000 (Revised) <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i> and has concluded the standard too generic to address service performance information specifically but has included the requirements of ISAE (NZ) 3000 within the ED where applicable.</p>	Support noted, including reference to ISAE 3000.
Treasury	<p>We thank the NZAuASB for releasing this ED on auditing Service Performance Information. The Treasury's main reason for commenting on the ED is our objective</p>	Concern noted.

	<p>to ensure that the flexibility available to report service performance information provided in PBE FRS 48 Service Performance Reporting is not unintentionally reduced by the content or implementation of this ED.</p> <p>The Treasury has a stewardship role with regard to the Public Finance Act 1989 (PFA) and Crown Entities Act 2004 (CEA), which set out the legislative requirements for reporting service performance information for public sector public benefit entities. Treasury's role also includes, in conjunction with the State Services Commission, supporting State sector system performance management system, such as accounting and auditing standards, support and reinforce the levers we use to support performance. This includes the 2013 changes that were made to the PFA and CEA.</p> <p>While changes were made to the PFA and CEA in 2013 to support more flexible service performance reporting, we have not seen significant change in practice. The role that the auditor plays is important; and we observe that sometimes there is misunderstanding and/or uncertainty around the concept of flexible performance reporting amongst some auditors and some entities.</p> <p>The general tenor from the roundtable attendees in Wellington on 16 November 2017 (ourselves included) was that the ED is hard to follow. This is, in part, because it lacks a clear objective and content that can be easily understood – including by those who are new to auditing service performance reporting (which is the target audience). The ED is currently too long, detailed and difficult to read and understand. There are 73 paragraphs in the standard and 74 paragraphs in the Application Material.</p> <p>We would recommend that you consider reducing the length and complexity of the ED by including some material in a separate guidance document to help interpret the ED. We also think the ED would benefit from a clear objective statement; e.g. to support the effective auditing of service performance reporting.</p> <p>The roundtable session also made clear some of the perceived restrictions in preparing the ED, including the need to straddle existing standards and</p>	<p>The NZAuASB has identified ways to improve the understandability of the document by reducing the number of requirements, moving and merging requirements to improve the flow and replacing the term criteria.</p> <p>The objective of the ED is included in para 6. This approach is consistent with approach in the ISAs. No changes recommended.</p>
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	<p>requirements in New Zealand and international frameworks which differ slightly from each other. Examples of the slight variations were shown, and while the text is different, the intent is not. We suggest addressing this issue by elevating the text to a higher level and noting the differences between existing standards and frameworks in an appendix for technical readers.</p> <p>In light of the above, our view is that this ED does not support what Treasury is seeking to achieve in improving the understanding and reporting of performance in the State sector. It is also our view that, across the wider public benefit landscape, the ED as currently drafted leaves open the possibility of audits which deliver worse outcomes than the status quo. The Treasury would strongly support significant changes to this ED and the material is re-issued for comment.</p>	<p>Text has been elevated as much as possible to avoid technical terms like “criteria” and avoid repeating the accounting standard.</p>
Wellington roundtable	<ul style="list-style-type: none"> • Too long • Difficult terminology • Too much focus on measurement • Roy – comment was the ED was incomprehensible – asked whether re-exposure would be needed? 	<p>Concern noted and amendments made as above.</p> <p>References to measurement always followed by reference to descriptions as required by the accounting standard.</p> <p>Removal of criteria and definition that refers to measurement may help.</p>
NZASB subcommittee members	Members acknowledged that, in light of the range of views received, it would be a challenge for the NZAuASB to respond to the wide range of views expressed, in order to progress the standard.	Agreed.
NZASB subcommittee members	NZASB members thought that the comments about cost benefit issues (PwC submission) were an interesting observation that might be worthy of further consideration and that guidance might be an option for addressing concern.	As above- raised with the XRB.
NZASB subcommittee members	NZAuASB members were provided with a brief update on the NZASB project on guidance for reporting service performance information. Requested that staff from the NZASB and NZAuASB continue to liaise closely as the guidance develops.	To monitor going forward.

<p>NZASB subcommittee members</p>	<p>Considers that materiality in the context of service performance information is different from materiality in the context of financial statement information. It could, therefore, be helpful to elaborate on this for auditors as this is important from a practical perspective.</p> <p>In response to a question whether the same comment applies from a preparer's perspective, an NZASB member considers that the same comment wouldn't necessarily apply to preparers.</p> <p>Preparers need to think about PBE FRS 48. Materiality comes into that as one of the pervasive constraints from a preparer perspective. There could be service performance information in the report that isn't material from the preparer's perspective, just as there could be information in the financial statements that isn't material from an auditor's perspective.</p> <p>Although materiality will be an issue for both preparers and auditors, some applications will be auditor only, and others apply more to the preparer. Broader challenges will be equally applicable to both preparer and auditor but they will not necessarily be the same. One wouldn't expect a preparer to put only material information into the report.</p> <p>NZAuASB noted that materiality might not be about including information that is immaterial but more about the risk of material information not being reported by the preparer. This is why the two-step approach is important: are we reporting on the appropriate information before going into the second phase of verifying that information.</p>	<p>Agreed, the document includes additional guidance related to qualitative factors and highlights the need to set various materiality levels as there is not one.</p> <p>The Board noted the need for a materiality process for the preparer and suggested that this could form a part of the preparer's guidance – where the entity is clear about the important matters, materiality from the auditor's perspective is not that challenging. Materiality is linked to relevance from a preparer's perspective – when would information that is not relevant be included in the SPI and be in accordance with the accounting standard? The auditing standard's focus is on establishing materiality for the purpose of assessing the risk of material misstatement.</p>
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Question 1: Do you agree with the proposed approach to develop an auditing standard rather than a standard under the umbrella of ISAE (NZ) 3000 (Revised)? If not, please explain why not, and why an alternative approach is preferable.

Respondent	Comment	Staff Response to the comment
KPMG	We agree with the proposed approach and acknowledge the consistency that comes with developing this as an auditing standard.	Support noted.
BDO	<p>We agree with the NZAuASB's approach to the development of the Exposure Draft. We consider that:</p> <ul style="list-style-type: none"> • Service performance information, where required, is integral to a public benefit entity's general purpose financial report • Where a public benefit entity's general purpose financial report is audited, the audit should cover both the financial information and the service performance information <p>The audit of service performance information and financial information in a general purpose financial report should be undertaken concurrently and using a consistent suite of standards.</p>	Support noted.
Staples Rodway	Yes, we agree with the proposed approach of developing an auditing standard rather than a standard under the umbrella of ISAE (NZ) 3000 (Revised). We consider this is an important signal that the audit of service performance information is of equal nature to the audit of the financial statements, and that, as such, these should be undertaken concurrently. On a practical level it will also be helpful to auditors to consider only one set of standards when undertaking an audit engagement where service performance information forms part of the engagement scope.	Support noted
PWC	We support the standards development as an auditing standard as this aligns with the requirement to include service performance reporting as part of the financial statements under <i>PBE FRS XX Service Performance Reporting</i> .	Support noted
OAG	We agree that the proposed standard should be included within the body of standards that govern the audit or review of historical financial information. The main reason for our view is that non-financial performance information and the associated financial information are integral to assessing the	Support noted.

Question 1: Do you agree with the proposed approach to develop an auditing standard rather than a standard under the umbrella of ISAE (NZ) 3000 (Revised)? If not, please explain why not, and why an alternative approach is preferable.

Respondent	Comment	Staff Response to the comment
	<p>performance of an entity with “public benefit entity” (PBE) objectives. This is because a user can only make a proper assessment of a PBE’s performance if they are in possession of both relevant financial and non-financial performance information contained in a general purpose financial report.</p> <p>Therefore, it follows that the audit of a general purpose financial report of a PBE should be carried out under a single body of standards – namely the ISA (NZ)s that integrate both financial and non-financial components of a general purpose financial report. If this is done appropriately, it should help to further emphasise the intended concurrent nature of an audit.</p>	
AUASB	N/A	
CAANZ	<p>We acknowledge there is a case for both because technically the scope of the ISAs (NZ) is only historical financial information, but in the New Zealand context the definition of “financial statements” includes service performance information (SPI). Therefore, we agree with the proposal to develop an auditing standard rather than an ‘other assurance’ standard. We agree that this will assist auditors to perform an audit of a general purpose financial report (GPFR), inclusive of SPI, as one engagement. This enables a more efficient and effective engagement to be performed which contributes to achieving an appropriate balance, as referred to in question 4.</p>	Support noted.
Treasury	N/A	
Mr. Carson	<p>I agree with a separate auditing standard approach for the audit of service performance information. While the auditing methodology of service performance information is the same as for the audit of financial information, the very nature of non-financial information requires a separate auditing standard rather than including it as part of ISAE (NZ) 3000.</p>	Support noted.

Question 1: Do you agree with the proposed approach to develop an auditing standard rather than a standard under the umbrella of ISAE (NZ) 3000 (Revised)? If not, please explain why not, and why an alternative approach is preferable.

Respondent	Comment	Staff Response to the comment
Auckland roundtable	One participant was unsure why the move away from ISAE 3000. General agreement that it was appropriate to emphasize the concurrent nature of the engagement.	General support noted.
Wellington roundtable	Did you think of reopening every ISA (NZ) rather?	The NZAuASB has rejected this option. Staff do not recommend reopening this debate given the high level of support from other submitters for the approach taken.

Question 2: Do you agree that the ED is understandable and is scalable so as to be applicable to the audit of service performance information, regardless of the size of the entity and the tier under which it reports?

Respondent	Comment	Staff Response to the comment
KPMG	We agree that this ED is understandable and scalable.	Support noted.
BDO	We consider that the Exposure Draft is understandable and scalable. We note, however, that the Exposure Draft may in part be more prescriptive than is appropriate and may consequently limit the exercise of auditor judgement	Support noted. Reduced the number of requirements which may help to address concern re level of prescription.
Staples Rodway	We consider that the ED is understandable and scalable. However, we do consider there is scope to reduce the amount of information from other auditing standards that is included in the ED. The references that we consider could be removed are: The Auditor's Responses to Assessed Risks (paras 39 – 42), Audit Considerations Relating to an Entity Using a Service Organisation (para 43), Evaluation of Misstatements Identified During the Audit (paras 44 and 45) and Special Considerations – Audit of Groups (para 53). We do not consider that the approaches to applying these standards in the course of the financial statement audit and the audit of service performance information are different enough to require their inclusion in the standard. Para 8 of the ED makes it clear that the auditor shall apply all the ISAs (NZ) as appropriate.	Support noted. Amendments have reduced the length.
PWC	We understand the objective for a consistent approach and agree that the approach taken is sensible. Based on the proposed ED we expect audits to be scalable, however, we consider that the requirements for smaller PBE and NFPs may be overly onerous due to: <ul style="list-style-type: none"> - Investment required in systems to identify, capture monitor and record relevant information - Staff capacity and expertise required to make judgements and to consider information disclosed - A lack of guidance to ensure consistency and comparability - Additional time and resource costs including additional audit costs 	Support noted. Concern that requirements may be onerous for smaller entities noted. Linked to comments around whether an audit is appropriate – referred to XRB board.

Question 2: Do you agree that the ED is understandable and is scalable so as to be applicable to the audit of service performance information, regardless of the size of the entity and the tier under which it reports?

Respondent	Comment	Staff Response to the comment
OAG	We agree that the ED should apply to the audit of non-financial performance information, irrespective of the size of the reporting entity, or the tier under which it reports. At present we consider the ED is too difficult for a practitioner to engage with because it is overly technical, confusing and is not supported by relevant practical guidance . It is particularly important that the ED addresses these concerns given it is covering an area that is new to many practitioners who are likely to be auditing service performance information of small PBEs for the first time.	Support noted. Ways to enhance understandability have resulted in amendments.
AUASB	N/A	
CAANZ	We agree that the ED is understandable and scalable.	Support noted.
Treasury	N/A	
Mr. Carson	Yes I agree. Any difference between public sector and not-for-profit entities could be explained by means of additional explanatory guidance or notes in the audit standard.	Support noted.

Question 3: Do you consider there are additional areas where further requirements or application material is needed that are not addressed by the ED or where further guidance is needed on how the ISAs (NZ) are to be applied to the service performance information? Please be specific.

Respondent	Comment	Staff Response to the comment
KPMG	We acknowledge that there is significant additional guidance provided in relation to <i>a. evaluating the suitability of the entity's service performance criteria</i> . However this remains an incredibly subjective area where auditors may still struggle to form a conclusion . Whilst the understanding of the entity will provide a basis for the suitability of the criteria, asserting that those criteria presented are complete and no additional criteria should be included (paragraph A20) and whether negative aspects should be included (paragraph A23) can be a difficult conclusion to make. We do not believe additional guidance can alleviate this challenge in all cases.	Concern noted. Agreed that these are key challenges in forming a conclusion. Note support for guidance included in the draft to counter the OAG's consideration that additional guidance is needed.
BDO	We do not consider that additional requirements or application material are required.	Noted.
Staples Rodway	We consider the ED contains useful guidance to assist auditors in auditing service performance information. In particular we consider that the guidance on assessing materiality for service performance information and determining materiality factors (A41) of the ED will be useful in applying the ED . Given its usefulness we encourage the NZAuASB to consider including some of the guidance on assessing materiality (specifically the characteristics of suitable criteria included in para A17 of the ED) in the standard itself (para 31) . This will help to ensure that the standard 'stands alone' and will ensure consistency in assessing materiality between auditors and audit firms. We acknowledge that the qualitative characteristics have been included in para 58 of the ED (under 'forming an opinion and reporting'). It would be beneficial to introduce the qualitative characteristics in an earlier section of the ED (ie when introducing the assessment of the suitability of the criteria in para 12, rather than referring auditors to the PBE Conceptual Framework) .	Support for guidance in ED noted. Support for proposed guidance on materiality is noted. The NZAuASB agreed to elevate these factors to the requirements.

Question 3: Do you consider there are additional areas where further requirements or application material is needed that are not addressed by the ED or where further guidance is needed on how the ISAs (NZ) are to be applied to the service performance information? Please be specific.

Respondent	Comment	Staff Response to the comment
PWC	Additional application guidance on what appropriate service performance criteria might be, or sector specific measures would assist in streamlining both the preparation and auditing process.	Suggestion noted. Possibly best covered in guidance (and if possible joint guidance).
OAG	Entities that report service performance information often contract with other entities to deliver services. Alternatively entities may use a service organisation to deliver services on their behalf. It would be helpful if the ED included "Application and Other Explanatory Material" that assists auditors when they need to obtain evidence about services delivered by contractors, service organisations or other third parties, in particular where those third parties are directly responsible for collecting the service performance information that is reported. For example, where local authorities report road smoothness information provided by third party contractors or entities that provide grants report on what that grant has been used for, based on information from the recipient.	Suggestion noted.
AUASB	N/A	
CAANZ	We have not noted a need for any additional areas in the requirements or in the guidance.	Noted
Treasury	N/A	
Mr. Carson	The two-step approach is acceptable as this is how a preparer of the statement of service performance approaches the development of service performance information for its performance report. However, I have considerable difficulty with the word "criteria" used in step 1. My experience has been in the use of the concept of a framework that includes the use of intervention logic in how outputs contribute to the achievement of outcomes (including intermediary outcomes) and how performance measures are linked to outputs. The Charities Service information material for registered charities	Lack of understanding the term criteria noted. Alternatives are under consideration.

Question 3: Do you consider there are additional areas where further requirements or application material is needed that are not addressed by the ED or where further guidance is needed on how the ISAs (NZ) are to be applied to the service performance information? Please be specific.

Respondent	Comment	Staff Response to the comment
	talks about outcomes and outputs and how these are related, i.e. a framework. The dictionary definition of criteria is standards and I do not think that this word is appropriate. The problem, as I understand, is that the ISAE (NZ) 3000 uses the word criteria; however could this not be amended or if used in the proposed audit standard for service performance explained in detail with a diagram to show the linkages between an entity's mission and goals, its outcomes and outputs, and its performance measures.	
Auckland roundtable	<p>Darren concern on focus on numbers – consider amending para 48.</p> <p>Discussion on need to know how to audit a description.</p> <p>Need to identify user – para 22 (b) - Ann likes this – keep it simple – top 3</p> <p>Darren concern at onerous documentation requirement to identify users needs? Is it more about the client understanding?</p> <p>Focus on identification of key users - maybe delete the words 'and what their information needs are'</p> <p>Auditors got the hard yard</p> <p>ED too long (versus accounting std) – but preparer often not professionals – auditors are.</p>	<p>Amended in draft</p> <p>Need to reduce length actioned. Acceptance of length noted – given auditors are professionals and preparers may not be.</p>

Question 4: Do you believe that the ED achieves an appropriate balance between improving the consistency and quality of an audit of GPFR that includes service performance information and the potential cost of such engagements as a result of work effort required by the ED? If not, please expand on where and why you consider the costs exceed the benefits.

Respondent	Comment	Staff Response to the comment
KPMG	In relation to step 1 <i>Evaluate the Suitability of the entity's service performance criteria</i> , as discussed above, we believe this step could be challenging in some cases. Whilst the criteria for some entities may be straight-forward, there could be other cases where this aspect is incredibly subjective. Requiring an auditor to challenge those charged with governance in relation to the judgements over suitable criteria could become costly and would outweigh the benefit in these cases. Paragraph 36 acknowledges that "An entity's service performance criteria may develop over time. Initially an entity may select service performance criteria, including performance measures that are easiest to measure and report, that do not necessarily meet the qualitative characteristics described in the applicable financial reporting framework". In these cases, would an auditor be required to qualify their opinion in the initial years when easy measures are selected?	Agreed. We consider that this is judgemental rather than subjective. Concern noted. Additional application material (similar to guidance in IRBA guide) included
BDO	We consider that the Exposure Draft achieves an appropriate balance between improving the consistency and quality of an audit of general purpose financial reports that include service performance information and the potential cost of such engagements.	Support noted.
Staples Rodway	While the high-level, principles-based nature of the ED goes a long way towards balancing consistency and quality of an audit that includes service performance information there appears to be significant reliance on the use of professional judgement. In our opinion this reliance will impact on the consistency of the audits of service performance information and will also require greater use of senior time on these engagements. It would be useful if additional guidance or direction could be incorporated in the standard so that the degree of professional judgement required is reduced. One example would be to make more explicit reference in the auditing standard to the disclosure	Application material refers to the importance of the disclosure of judgements.

Question 4: Do you believe that the ED achieves an appropriate balance between improving the consistency and quality of an audit of GPFR that includes service performance information and the potential cost of such engagements as a result of work effort required by the ED? If not, please expand on where and why you consider the costs exceed the benefits.

Respondent	Comment	Staff Response to the comment
	of judgements section required in para 44 of FRS -48 <i>Service Performance Information</i> . In our view, this is the key requirement in the financial reporting standard that places the onus on the preparer (management and TCWG) to make judgements regarding what should be reported, and what level of detail is appropriate. Greater emphasis on gaining comfort around this section should help to rebalance the roles of preparer and auditor.	
PWC	<p>The PBE conceptual framework contemplates the cost / benefit balance as an important consideration for governing bodies and management when reporting financial information. The range of entities captured by the thresholds set in the standards is very extensive, given the threshold of \$1 million of operating expenses. In our experience, many smaller PBE entities have limited financial reporting resource and capability and they are likely to find the preparation of service performance reports challenging, given the level of judgement involved and customised nature of the information. The cost of designing and implementing relevant performance measures, including relevant controls around those performance measures, and capturing and monitoring the relevant data may be prohibitive.</p> <p>For the smaller organisations, this may result in the cost of an audit of General Purpose Financial Reporting (GPFR) that includes service performance information being disproportionately high in comparison with, for example, the cost of an audit of the historical financial information. We acknowledge this is a financial reporting framework challenge.</p>	Concern noted. The NZAuASB has not determined who must prepare. Issue raised with the XRB board.
OAG	<p>At present, we do not consider the ED achieves the necessary balance between audit quality and cost. In particular, it is our view that in its current form, there is an excessive number of requirements imposed on auditors in respect of the service performance information.</p>	Concern noted. The number of requirements have been reduced.

Question 4: Do you believe that the ED achieves an appropriate balance between improving the consistency and quality of an audit of GPFR that includes service performance information and the potential cost of such engagements as a result of work effort required by the ED? If not, please expand on where and why you consider the costs exceed the benefits.

Respondent	Comment	Staff Response to the comment
AUASB	N/A	
CAANZ	We have not noted any obvious areas where costs may exceed benefits.	Noted
Treasury	N/A	
Mr. Carson	Yes	Support noted.

Question 5: Is the ED clear in emphasising the concurrent nature of the audit? If not, please provide paragraph references as to where you consider additional emphasis is needed.

Respondent	Comment	Staff Response to the comment
KPMG	We believe the statements made in paragraph 1 of the ED make this clear.	Support noted
BDO	We consider that the Exposure Draft clearly emphasises that the audit of service performance information should be undertaken concurrently with the audit of financial information.	Support noted
Staples Rodway	Yes, we consider that the ED is clear in emphasising the concurrent nature of the audit. Refer to our response to question 1 above.	Support noted
PWC	Yes, no specific comments.	Support noted
OAG	It is our view that the appropriate means of emphasising the concurrent nature of the audit of financial and service performance information is to suitably amend the ISA (NZ)s.	Support noted
AUASB	N/A	
CAANZ	In our view the concurrent approach is clearly described throughout the ED.	Support noted
Treasury	N/A	
Mr. Carson	Yes	Support noted

Question 6: Do you agree with the definition of the entity's service performance criteria? If not, please explain why not and provide an alternative suggestion.

Respondent	Comment	Staff Response to the comment
KPMG	We agree with the given definition.	Support noted – the term criteria will be replaced.
BDO	We largely agree with the Exposure Draft's definition of the entity's service performance criteria. However, we consider that there may be instances where a public benefit entity is providing access to facilities (such as a drop in centre), or to assets (such as computers), rather than (or in addition to) goods or services, and we consider that it might be appropriate to change the definition to reflect that.	Support noted <i>Is providing access to facilities or assets not covered by a "service" – do not recommend that we should emphasize these examples specifically if not done so in the accounting standard.</i>
Staples Rodway	<p>We suggest that the definition of service performance criteria could be shortened to improve its readability and understandability as follows:</p> <p><i>"the benchmarks used to measure or evaluate the entity's service performance. The <u>se entity's service performance criteria</u> include the goods and services <u>reported-delivered</u> and related performance measures and/or descriptions <u>used for the particular engagement adopted by the entity</u>, applicable to <u>the entity and</u> its circumstances, <u>with logical links which link</u> to the entity's overall purpose and strategies, in accordance with the applicable financial reporting framework".</i></p> <p>Given the importance of the term 'service performance information' and its use throughout the ED, we consider it would be useful if the standard also defined this term. We note that there is some discussion of what service performance information is, and isn't, and what references to service performance information should be considered to include in A2 and A8 of the ED. While this is useful, it would be more useful to define service performance information in the standard itself.</p>	<p>Overall support with suggestions for improvement.</p> <p>Para A1 repeats the accounting standards description of SPI.</p>
PWC	The definition in paragraph 7e looks sensible. However, we note this definition is not explicit in PBE FRS XX Service Performance Reporting Standard.	Support noted.
OAG	No, please refer to the comments on service performance criteria at section 5 of Attachment 1.	Disagreement noted. Considered above.
AUASB	Overall the service performance criteria definition in para 7(f) is sufficient and consistent with the principles of ISAE 3000. In addition to the references to strategy, the definition may also benefit from connectivity to:	Support noted. <i>Definition of criteria deleted. Additional application material highlights a variety of</i>

Question 6: Do you agree with the definition of the entity's service performance criteria? If not, please explain why not and provide an alternative suggestion.

Respondent	Comment	Staff Response to the comment
	<ul style="list-style-type: none"> • Business model (to implement strategy); • Sectoral performance measures (e.g. GRI Sector Guides); and • Global performance measures (e.g. Sustainable Development Goals (SDGs), global megatrends). 	<i>frameworks/guidance/codes generically rather than specifically to GRI or sustainability goals as SPI may be broader than GRI or sustainability reporting – still a need to distinguish between SPI and GRI and IIRC</i>
CAANZ	<p>We believe the definition would be clearer if “used for the particular engagement, adopted by the entity” were deleted as follows:</p> <p>Service performance criteria – The benchmarks used to measure or evaluate the entity's service performance. The entity's service performance criteria include the goods and services reported and related performance measures and/or descriptions, applicable to its circumstances, with logical links to the entity's overall purpose and strategies, in accordance with the applicable financial reporting framework.</p>	Replaced criteria.
Treasury	<p>The ED soon narrows the flexibility available in the accounting standard in the definition of service performance criteria, which focuses on performance measures rather than the flexibility available in the accounting standard.</p> <p>The term criteria is problematic because it implies a set of objective standards that performance information can be compared to. This is inconsistent with the definition of service performance criteria in the ED. We think that replacing the term criteria with either framework or information would solve this problem and also refocus the ED away from detail.</p>	<p>Suggestion for inclusion of the idea of a framework noted but previously rejected on the grounds that the accounting standard does not mandate the use of a performance framework.</p> <p>In order for an assurance engagement there needs to be objective criteria to evaluate the performance otherwise this is just the auditor's individual view, not an independent assurance opinion.</p>
Mr. Carson	<p>However, I have considerable difficulty with the word “criteria” used in step 1. My experience has been in the use of the concept of a framework that includes the use of intervention logic in how outputs contribute to the achievement of outcomes (including intermediary outcomes) and how performance measures are linked to outputs. The Charities Service</p>	<p>Difficulty noted.</p> <p>Staff highlight the need to avoid terms like outcomes and outputs.</p>

Question 6: Do you agree with the definition of the entity's service performance criteria? If not, please explain why not and provide an alternative suggestion.

Respondent	Comment	Staff Response to the comment
	information material for registered charities talks about outcomes and outputs and how these are related, ie. a framework. The dictionary definition of criteria is standards and I do not think that this word is appropriate . The problem is, I understand, is that the ISAE (NZ) 3000 uses the word criteria; however could this not be amended or if used in the proposed audit standard for service performance explained in detail with a diagram to show the linkages between an entity's mission and goals, its outcomes and outputs, and its performance measures.	
Auckland roundtable	<p>Too long the second sentence.</p> <p>"Benchmarks" – again undue focus on a number not a description?</p> <p>Refer to achievements rather – although maybe that only focusses on "good news" stories.</p> <p>Ask Auckland uni specialist for assistance in defining</p> <p>Delete "the entity's service performance and the beginning of the second sentence "the benchmarks used to measure or evaluate the goods and services reported and related performance measures and/or descriptions....."</p> <p>Change the first sentence "the benchmarks used to measure or evaluate the performance of service"</p> <p>How to evaluate what is suitable – concise</p> <p>Neutrality is a concern (Wayne)</p> <p>What about if talk about intention - forecast info – look at track record of setting and achieving in the past.</p>	<p>Suggestions for improvements noted.</p> <p>Criteria replaced</p>
Wellington roundtable	<ul style="list-style-type: none"> • Too much focus on measurement • Majority seemed to relate better to the term "Performance Framework" • Found terminology (from 3000) confusing 	<p>Preference for use of the term "performance framework" noted.</p>
NZASB sub-committee members	<p>Concern raised</p> <p>This matter links to both concerns raised earlier in previous joint sub-committee meetings by NZASB members and reflections regarding the submissions received.</p>	<p>Noted.</p>

Question 6: Do you agree with the definition of the entity's service performance criteria? If not, please explain why not and provide an alternative suggestion.

Respondent	Comment	Staff Response to the comment
	NZASB members had noted the range of responses received: along a spectrum with views expressed at either end and in the middle.	
	NZASB members thought that the first step may be to not focus on the drafting of the words. Rather, from a conceptual perspective, what are the performance criteria trying to achieve, and how does that fit in with the accounting standard.	Conceptually the need to evaluate the suitability of the criteria, gives life to the first step in the two step process. Conceptually the NZASB are supportive of this approach.
	NZASB members consider that looking at ISAE (NZ) 3000 <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i> (ISAE (NZ) 3000), service performance measures are benchmarks that are used to evaluate the underlying subject matter. However, the NZASB members consider that the ordinary definition of 'benchmark' is that it's a point of reference against which something can be compared. What does this mean in the context of financial performance?	The term criteria does not create or imply the need for the preparer to report against targets/budgets. Criteria to be replaced.
	Kimberly gave an example. Although financial statements are used to report net surplus or deficit, there could be other standardised/alternative measures. Ultimately, they are measures for the period: they are not in or of themselves benchmarks.	
	The NZASB members are concerned that if the entity uses "benchmarks", the service performance information would be compared against targets or expectations which may have been set at the beginning of the year. This is how the NZASB members understand the way ISAE (NZ) 3000 has been set up.	
	NZASB members commented that setting up targets or expectations and comparing them with service performance information would be useful to people and that it could be good governance practice. However, the NZASB was trying to put service performance information on the same footing as financial statements. The entity	

Question 6: Do you agree with the definition of the entity's service performance criteria? If not, please explain why not and provide an alternative suggestion.

Respondent	Comment	Staff Response to the comment
	<p>should be describing what it did and the judgements it made about what to report and how it should be reported. Service performance measures and descriptions are measures of what the entity did during the period rather than benchmarks.</p> <p>The public sector has a history of establishing targets and reporting against those targets. However, not-for-profit entities (NFPs) don't have those requirements or practice. The NZASB decided that it did not have the mandate to require NFPs to report targets or benchmarks.</p> <p>When the NZASB was developing PBE FRS 48 there was a conscious effort to separate what an entity has achieved during the period from what an entity expected to achieve during the period (ex ante). PBE FRS 48 applies to all PBEs and it has to be remembered that NFPs do not have the same requirements as public sector entities. The NZASB encourages the NZAuASB to also consider this when developing the auditing standard.</p> <p>PBE FRS 48 takes entities through things to think about: for example, keep in mind the qualitative characteristics (QCs) when deciding on the contextual information and the performance measures to use for reporting service performance information. The NZASB considers that it would be appropriate for the auditing standard to have a similar approach to the assurance of that information.</p> <p>In other words, the NZASB is asking the NZAuASB to rethink its criteria from this same perspective. For example, it may require changes to the way criteria have been defined. If this is thought about in the context of PBE FRS 48 (quite a high-level, principles-based standard), the changes made to the auditing standard might work</p>	<p>Discussion on the need to refer to the QCs included in the issues paper.</p> <p>The Board discussed the ongoing need for the "reporting policies and procedures"/compilation methods to be clear to the user of the report as these are bespoke to the engagement circumstances.</p>

Question 6: Do you agree with the definition of the entity’s service performance criteria? If not, please explain why not and provide an alternative suggestion.

Respondent	Comment	Staff Response to the comment
	<p>across all tiers if PBE FRS 48 is used as the starting point. Auditors of tier 3 entities might need some additional guidance to help with language differences.</p>	
	<p>NZASB members struggled with the reference to ‘basis of preparation’ in one of the submissions. The entity is describing its performance measures therefore the NZASB struggles to understand what is required by “disclosure of benchmarks”.</p>	

Question 7: Do you agree with the general two-step approach taken in the ED, in particular, the requirements for the auditor to first evaluate the suitability of the entity's service performance criteria and then obtain sufficient and appropriate audit evidence to support the service performance information? If not, please explain why not and identify any alternative proposals.

Respondent	Comment	Staff Response to the comment
KPMG	See comments made in relation to question 4 above. We have concerns around the requirement to assess the suitability of the criteria as we do not believe this would be achievable in all circumstances. We believe that given the levels of discretion and the flexibility allowed within the accounting standards, there may be circumstances when we (as assurance practitioners) are unable to ascertain whether the criteria is suitable or not. We are of the opinion that the responsibility for assessing the suitability of the criteria should be with Those Charged with Governance as they have a better understanding of their financial statement users. We are also of the opinion that this would be implied when we opine on the Statement of Service Performance (SSP) itself. That is, we believe that when opining on the GPFS (and therefore the SSP), the auditor would be required to consider if the prepares selection of reporting measures gives a true and fair view of the entity. Given that, we do not believe that there if a need for this to be explicitly called out.	Concern noted. The responsibility for evaluating the suitability of criteria is a precondition for any assurance engagement. The responsibility of the preparer is key and that these roles should not be blurred. This is specified in the terms of the agreement.
BDO	We consider that the two-step approach proposed in the Exposure Draft is necessary to an effective audit of service performance information.	Support for two step process noted.
Staples Rodway	We agree that the two-step approach taken in the ED, in particular the requirement for the auditor to first evaluate the suitability of the entity's service performance criteria, and secondly obtain sufficient and appropriate audit evidence to support the service performance information, is appropriate. We consider that it would be useful to include both of these steps in the audit report itself to make this distinction clear to users. It may also be useful to make it clear that step two builds on step one (ie the reported information should link back to the criteria selected by the entity and assessed as suitable by the auditor).	Support noted Preference for a separate opinion noted. Majority supportive of one opinion as proposed. Agreed to retain proposed opinion.

Question 7: Do you agree with the general two-step approach taken in the ED, in particular, the requirements for the auditor to first evaluate the suitability of the entity's service performance criteria and then obtain sufficient and appropriate audit evidence to support the service performance information? If not, please explain why not and identify any alternative proposals.

Respondent	Comment	Staff Response to the comment
PWC	Step 1 - Since this forms part of the GPFR the suitability should be assessed by the auditor . However, due to the broad range, judgmental and specific nature of SPI for each entity our concern is that this is a significant undertaking, which may result in significant, additional audit effort and cost.	Concern related to cost noted.
	Step 2 - Yes we agree that the auditor should verify what is reported. As discussed the challenge that we foresee, particularly for smaller entities, is that the information required for an auditor to obtain sufficient appropriate audit evidence to conclude may not be readily available.	Concern related to smaller entities noted.
OAG	Yes, we agree with this approach, subject to the removal of the term "service performance criteria".	Support for two step process noted.
AUASB	The two-step approach is consistent with the concepts in ISAE 3000 so overall we are supportive of the approach taken in ED 2017-2. The concept is repeated in paragraphs 28 and 35 so the NZAuASB may need to consider this approach. Scoping complexity was presented as a challenge in the Australian jurisdiction for extended external reporting engagements (EER) of which SPI would be included; hence there may also be more complexity for SPI in Australia than the two-step approach adopted in NZ. This area will hopefully be addressed as part of the IAASB EER project on assurance challenges for EER.	Support noted. Reconsider need for repetition, noting others have raised concern re the length.
	ED 2017-2 uses terminology in its two-step approach to audit of SPI — "verifying" what is reported. The term 'verify' has been used in ED 2017-2 as it is linked to the concept of "verifiability- in the PBE Conceptual Framework. This term is not one applied or defined in the Australian or	Remove reference to verifiability

Question 7: Do you agree with the general two-step approach taken in the ED, in particular, the requirements for the auditor to first evaluate the suitability of the entity's service performance criteria and then obtain sufficient and appropriate audit evidence to support the service performance information? If not, please explain why not and identify any alternative proposals.

Respondent	Comment	Staff Response to the comment
	International Framework for Assurance Engagements so the AUASB may need to consider this further if an assurance standard on SPI is developed.	
CAANZ	In our view, determining the appropriateness of the entity's service performance criteria is a prerequisite to designing and performing procedures to obtain sufficient appropriate evidence over the SPI. Therefore, we agree with this two-step approach.	Support noted.
TREASURY	We understand that the general two-step approach is the current approach to auditing service performance information used by the OAG. We support this approach as long as it does not become an audit judgement about the quality of the performance framework rather than a review of the choices and trade-offs made by the entity in determining the most appropriate performance framework given their context.	Support noted. Concern comment may be useful to include in guidance.
MR. CARSON	Yes. See my comments above.	Support noted.
AUCKLAND ROUNDTABLE	General agreement with the two step approach. Motat a good example where it is refreshing to hear about what not gone well. Challenge for NFP sector – resourcing Liam (foundation North) – suitability – preparer needs to address – auditor should review process adopted by the entity NFP sector – controls generally not good – mismatch of info – good at doing good work, not good at record keeping. Examples of qualifications – 7 th day Adventist and Auckland Mission	Support noted
WELLINGTON ROUNDTABLE	Strong support – NB to stand back and consider whether what is reported achieves fair presentation	Support noted.

Question 7: Do you agree with the general two-step approach taken in the ED, in particular, the requirements for the auditor to first evaluate the suitability of the entity's service performance criteria and then obtain sufficient and appropriate audit evidence to support the service performance information? If not, please explain why not and identify any alternative proposals.

Respondent	Comment	Staff Response to the comment
NZASB SUBCOMMITTEE MEMBERS	This point has not been explicitly raised by NZASB members but all agreed that the approach makes sense. This approach was also supported by respondents to the ED. NZASB members encourage the NZAuASB to continue with the two-step approach. NZASB summarised that this approach involves thinking about (i) the suitability of the measures/descriptors for reporting service performance information (and how they were determined); and (ii) the information that has been reported (verification). From a public sector perspective, NZASB members commented that thinking about the suitability of the measures that will adequately tell the entity's story is considered to be really important.	Support noted.

Question 8: Do you consider that the ED is clear that the evaluation of the suitability of the entity's service performance criteria is an iterative process, and therefore allows for the possibility of changes to be made by the entity during the current financial reporting period or do you consider that the ED should be more explicit with respect to changes that may be made to the entity's service performance criteria during the financial reporting period? If you consider further clarification is needed, please be specific as to what amendments you consider necessary.

Respondent	Comment	Staff Response to the comment
KPMG	See response to question above. Whilst we do agree this is an iterative process, this creates a challenge for practitioners who are required to opine on the suitability.	Noted.
BDO	We consider that the Exposure Draft clearly states that, if the auditor is concerned about the suitability of the entity's service performance criteria, the entity may change its service performance criteria.	Support that ED is clear noted.
Staples Rodway	Yes, we consider the ED is clear in this regard . In terms of further clarification, it may be worth including a statement in the ED acknowledging that additional selection bias may be introduced where the entity makes changes to its service performance criteria during the financial year. We consider that, on balance, it is important to allow entities to make changes to these criteria during the year, as many entities will be working to improve their service performance frameworks and may be taking into account feedback received from their auditors at the start of the financial year (in line with para 14 of the ED).	Support for clarity noted. Refer application material for possible amendments.
PWC	Yes, no specific comments.	Support noted.
OAG	We agree that an entity should be able to change its performance measures, provided the new performance measure is an improvement on the previous performance measure. This matter is adequately addressed in paragraph 32 of the ED , and in paragraph 40 of PBE FRS 48: Service Performance Reporting.	Support noted.
AUASB	N/A	
CAANZ	No, it is not clear that the evaluation of the suitability of the entity's service performance criteria is an iterative process, and therefore allows for the possibility of changes to be made by the entity during the current financial	Call for clarification noted – refer application material for suggested clarification

Question 8: Do you consider that the ED is clear that the evaluation of the suitability of the entity's service performance criteria is an iterative process, and therefore allows for the possibility of changes to be made by the entity during the current financial reporting period or do you consider that the ED should be more explicit with respect to changes that may be made to the entity's service performance criteria during the financial reporting period? If you consider further clarification is needed, please be specific as to what amendments you consider necessary.

Respondent	Comment	Staff Response to the comment
	reporting period. Paragraph 32 implies that the entity's service performance criteria may have changed from the prior period, so this may be an appropriate place for clarification.	
Treasury	We would be comfortable with this due to the current flexibility to amend performance information for Public Service Departments and Crown entities during the year as long as the changes are recorded in the " <i>Supplementary Estimates of Appropriation</i> " in the relevant year.	Noted
Mr. Carson	A registered charity should be setting its annual service performance budget at the start (or before) of its financial year just the same as it does with its financial budgets. During the year the entity may revise one or more parts (ie outputs) of its service performance budget as it does for its financial budgets. The question is which budget should be reported at year end in the entity's performance report. Central government departments report the original budget (Main Estimates) voted plus amended budgets (voted Supplementary Estimates). Therefore, I believe that the original service performance budget amended by any revision is the one to be reported, and thus audited (including how the entity arrived at the revised budget.	Noted. There is no requirement for charities to report against budgeted information.

Question 9: Do you consider that the guidance in the ED with respect to evaluating the suitability of the entity's service performance criteria fits together well with the requirements and guidance in the proposed financial reporting standard, with respect to the selection of information and disclosure of critical judgements? If not, what recommendations do you have to enhance the way in which the proposed financial reporting standard and the proposed auditing standard work together?

Respondent	Comment	Staff response to the comment
KPMG	We do acknowledge that suitable criteria is necessary to achieve sufficient service reporting, and that the assessment of suitable criteria aligns with the concepts of financial reporting. In this regard we believe the guidance is clear. However, please see our responses to question 3, 4 and 7 which highlight the inherent issues with auditors being required to opine on the suitability of the criteria.	Noted
BDO	We consider that the guidance proposed in the Exposure Draft with respect to evaluating the suitability of the entity's service performance criteria: <ul style="list-style-type: none"> Aligns to an appropriate extent with the requirements and guidance in PBE FRS 48 Service Performance Reporting Is sufficiently broad that it will also apply when an entity is reporting service performance information under other financial reporting standards, such as those applying to Tier 3 and Tier 4 public benefit entities. 	Noted Support for alignment with the accounting requirements noted.
Staples Rodway	As noted in question 4 above, we consider that explicit reference to the disclosure of judgements section in FRS-48 would go some way to linking the requirements of the auditing standard with the requirements of the financial reporting standard. While we acknowledge that the application material refers to the disclosure of the critical judgements (A28), it would be useful if explicit reference was included within the standard itself.	Requirements already refers to disclosure of judgements. The NZAuASB agreed it better to lift the standard higher and limit the direct quoting and referencing between the standards to better future proof the standard.
PWC	Yes, no specific comments.	Support noted.
OAG	Consistent use of terminology. It is essential that consistent terminology is used throughout the NZAuASB and NZASB standards and guidance to describe the qualitative characteristics and pervasive constraints in paragraphs 9 and 10 of PBE FRS 48: Service Performance Reporting. Unless consistent terminology	Refer to issues paper Strong support for the level of guidance already included in the ED by others. Board

Question 9: Do you consider that the guidance in the ED with respect to evaluating the suitability of the entity's service performance criteria fits together well with the requirements and guidance in the proposed financial reporting standard, with respect to the selection of information and disclosure of critical judgements? If not, what recommendations do you have to enhance the way in which the proposed financial reporting standard and the proposed auditing standard work together?

Respondent	Comment	Staff response to the comment
	<p>is used the potential for confusion amongst preparers and auditors of non-financial performance information is considered to be high.</p> <p>In addition, we consider that the application guidance needs to be much more practical so that auditors who are unfamiliar with the audit of non-financial performance information are more readily able to translate the requirements into audit procedures.</p> <p>Disclosure of critical judgements. We note that paragraph 44 of PBE FRS 48: Service Performance Reporting requires an entity to disclose the critical judgements it has made in reporting non-financial performance information. We are of the view that the primary role of the auditor is to challenge entities so that the disclosures are limited to the critical judgements only. The risk is the inclusion of unnecessary disclosures that create clutter and distract users from the critical judgements. We suggest that paragraph A28 of the ED asks auditors to evaluate whether disclosures are appropriately focused on the critical judgements that have been, or should be, disclosed.</p>	discussed the need for additional guidance to be developed separately from the standard.
AUASB	n/a	
CAANZ	<p>References to “qualitative characteristics” (as per paragraph 9 of PBE FRS 48 and chapter 3 of the PBE Conceptual Framework) and “characteristics” for suitable criteria (as per paragraph 24(b)(ii) of ISAE (NZ) 3000) are used interchangeably in the ED which may cause confusion. By way of example, paragraph 58(a)(ii) of the ED refers to qualitative characteristics but lists the service performance criteria characteristics.</p> <p>Furthermore, paragraph 58(a)(ii) mentions the “pervasive constraints on information”. It may be worth identifying that these are materiality, cost-</p>	Amendments to clarify the difference and similarity between the QCs and characteristics of suitable criteria

Question 9: Do you consider that the guidance in the ED with respect to evaluating the suitability of the entity's service performance criteria fits together well with the requirements and guidance in the proposed financial reporting standard, with respect to the selection of information and disclosure of critical judgements? If not, what recommendations do you have to enhance the way in which the proposed financial reporting standard and the proposed auditing standard work together?

Respondent	Comment	Staff response to the comment
	benefit and balance between the qualitative characteristics to avoid the need for the auditor to cross-reference to paragraph 10 of PBE FRS 48 or paragraph 3.3 of the PBE Conceptual Framework.	
Treasury	N/A	
Mr. Carson	Yes, but there needs to be more explanation and guidance about intervention logic, which is peculiar to service performance statements.	Noted. Possibly to be covered by NZASB guidance

Question 10: Do you consider that the application material will assist an auditor in applying professional judgement to evaluate the entity's service performance criteria?

Respondent	Comment	Staff Response to the comment
KPMG	Yes we do believe this will assist an auditor in applying professional judgement to this area, however subjectivity remains which may be difficult to overcome in certain circumstances.	Support noted.
BDO	We consider that the application guidance will assist an auditor to evaluate the entity's service performance criteria.	Support noted.
Staples Rodway	Yes, we consider the ED includes useful guidance to assist auditors in assessing the suitability of the criteria. In particular, we consider the application material discussing the degree to which the criteria exhibit the qualitative characteristics in A15 to A28 will be useful to auditors.	Support noted.
PWC	We consider additional application guidance on what appropriate service performance criteria frameworks are, or industry specific measures would assist in streamlining both the preparation and auditing process. In particular, for NFP entities where there is not industry recognised frameworks in place.	Noted – consider as part of guidance
OAG	In our view the application material needs to be more practically oriented. Please refer to Attachment 1 of our submission, where we provide comment on where the structure and content of the ED can be improved.	Request for practically oriented guidance noted.
AUASB	N/A	
CAANZ	Yes, we consider that the application material in the ED will assist with the application of professional judgement.	Support noted.
Treasury	N/A	
Mr. Carson	Not really. There needs to be a lot more information in the proposed auditing standard. Perhaps it could be provided as a separate guidance to the standard.	Acknowledgement that additional guidance may be better positioned outside of the standard.

Question 11: Is there a need for additional application material to assist an auditor in applying professional judgement to evaluate the entity's service performance criteria? If so, please indicate what additional application material is needed.

Respondent	Comment	Staff Response to the comment
KPMG	We do not believe so.	Noted
BDO	We do not consider that additional application guidance is required.	Noted
Staples Rodway	<p>Assessing the suitability of criteria is a relatively unfamiliar concept for auditors given the financial reporting frameworks used in New Zealand are more well-defined than the frameworks for service performance reporting. As such the additional explanatory guidance and illustrative examples will be well received.</p> <p>We consider the ED places good emphasis on the need for auditors to exercise professional scepticism in assessing the suitability of the criteria, given the risk of management bias in selecting these criteria. One suggestion we have for enhancing the application of professional scepticism in audits of service performance information is to make explicit a rebuttable presumption of the risk of material misstatement relating to the selection of suitable criteria. This could be done in a similar way as was done for the risk of material misstatement relating to fraud in revenue recognition (para 26 of ISA (NZ) 240). It may be useful to use terms (such as rebuttable risk of material misstatement) that auditors are already familiar with through existing ISA's. We consider including an explicit risk of material misstatement (RMM) in the ED will enhance the level of scepticism applied in assessing the criteria selected by TCWG. Application guidance around instances in which this risk could be rebutted could include where the criteria are specified by an external entity, grant etc or where the strategy of the entity is so distinct that the selection of a single performance measure is deemed appropriate.</p> <p>In order to provide a more balanced approach, the NZAuASB may consider it is</p>	<p>Support noted.</p> <p>Amended application material to highlight that the work effort to conclude on the suitability is directly related to the level of external input</p>

Question 11: Is there a need for additional application material to assist an auditor in applying professional judgement to evaluate the entity's service performance criteria? If so, please indicate what additional application material is needed.

Respondent	Comment	Staff Response to the comment
	<p>appropriate to apply the rebuttable presumption of RMM in defined instance, such as where:</p> <ul style="list-style-type: none"> • The entity is reporting service performance information for the first time • There has been a change in the suitable criteria • There has been a significant change in the entity's operations. 	
PWC	Yes, no specific comments.	Noted
OAG	Yes, please refer to sections 6 and 7 of Attachment 1 of our submission.	Noted
AUASB	N/A	
CAANZ	We have not noted a need for any additional application material.	Noted
Treasury	N/A	
Mr. Carson	Yes. Information about intervention logic in particular, and about intermediate outcomes. Also about provided a service performance framework which maps the entity's mission and goals to its outcomes (and intermediate outcomes) and outputs, and the performance measures.	<p>Noted.</p> <p>Staff consider this may be better prepared by the NZASB in their guidance.</p>

Question 12: Do you agree with the identified assertions? If not, please explain why not. Are there further assertions you consider should be included? Please explain.

Respondent	Comment	Staff Response to the comment
KPMG	Whilst we do agree with the identified assertions , we again note that certain assertions may be more challenging to opine on than others (such as completeness and neutrality) as discussed in to questions 3, 4 and 7 above.	Support noted
BDO	We agree with the assertions identified in the Exposure Draft.	Support noted.
Staples Rodway	<p>We consider that the identified assertions are appropriate, in particular the inclusion of the attribution assertion. In terms of structure of the ED, we consider it would be useful if the assertions were included in the body of the ED itself (para 38), rather than the application material (para A49). We acknowledge this is a departure from the approach applied in ISA (NZ) 315 (Revised) however we consider that this departure is justifiable on the basis that the assertions are a critical part of determining the audit approach, and that auditing service performance information is a new subject matter for a number of auditors. As such, it would be useful to make the standard as clear and complete as possible by including the assertions that auditors should seek comfort over.</p> <p>We note that ISA (NZ) 315 (Revised) includes a ‘substance over form’ statement in para A128 relating to the use of assertions. It would be useful to include such a statement in the service performance information standard as well.</p> <p>We note the discussion in para 43 of the ITC around the impact of absent or weak controls on the audit approach and the auditor’s opinion. We agree that, particularly while the NFP sector are developing the processes and controls around service performance information, a more substantive approach to the audit is likely to be required. We are mindful that this may have an impact on the cost of undertaking an audit over service performance information, and that this cost is unlikely to be able to be fully recovered from the entity itself.</p>	<p>Support noted – highlighting support for attribution.</p> <p>Consider additional application material.</p> <p>Concern re cost noted.</p>

Question 12: Do you agree with the identified assertions? If not, please explain why not. Are there further assertions you consider should be included? Please explain.

Respondent	Comment	Staff Response to the comment
PWC	<p>We agree with the identified assertions in paragraph A49, subject to the comments below:</p> <p><i>Completeness</i></p> <p>We consider there to be a difference in the definition of completeness as set out in para A49: “all significant service performance that should have been reported has been included in the service performance information”, to that set out in para 9b of Service Performance Reporting being: “Completeness implies that the service performance information presents an overall impression of the entity’s service performance with appropriate links to financial information.”</p> <p>We consider the exposure drafts definition implies a more thorough analysis.</p>	<p>Support noted.</p> <p>To consider in issues paper.</p>
OAG	No, please refer to section 8 of Attachment 1 of our submission.	Noted – see above, considered in issues paper.
AUASB	<p>It is noted that ED 2017-2 includes a new assertion of "attribution" in considering different types of misstatements of SPI. This assertion applies to whether the service performance is attributable to the entity.</p> <p>This is a new assertion in addition to those traditionally applied and is specific to SPI. The ATG agree that the inclusion of the assertion of attribution is appropriate for the subject matter of SPI. However the NZAuASB may need to consider that there is a lack of clarity between the assertions listed in the ITC Q12 and paragraph 58 (ii) i-v — qualitative and pervasive constraints of information, including completeness, neutrality, reliability, relevance and understandability. The differences between the PBE Conceptual Framework assertions and those in paragraph 58 may need to be explained further. Do balance, transparency and clarity also play a part in reporting SPI?</p>	<p>Support noted.</p> <p>Additional application material added in amended draft</p>
CAANZ	In our view, it is preferable for the assertions about SPI in paragraph A49 of the ED to be consistent with the assertions about financial statements in	Agree that attribution is important but suggestion to include in “occurrence”.

Question 12: Do you agree with the identified assertions? If not, please explain why not. Are there further assertions you consider should be included? Please explain.

Respondent	Comment	Staff Response to the comment
	paragraph A129 of ISA (NZ) 315. Whilst we agree that “attribution” is important, it could be combined into “occurrence”. For example “service performance that has been reported has occurred and the entity has evidence to support its involvement”. Also “ consistency ” should not be a ‘new’ assertion given that the entity’s service performance criteria can change year on year. Instead “ classification ” should be reinstated and could mean “service performance information has been recorded in the proper performance measure and/or description”.	Concern re “consistency” and “classification” noted. To consider in issues paper.
Treasury	Our view is that the assertion about attribution may be problematic in the public sector where multiple organisations contribute to influencing particular outcomes without necessarily being able to quantify or evidence their impact. It may still be relevant to report changes in an outcome over time so that overall progress can be monitored. This may also be problematic for other types of public sector benefit entities (e.g. those that contribute to outcomes in communities).	Concern related to attribution noted
Mr. Carson	The entity will need to put in place cost effective systems and procedures to support its assertions about how outputs are linked to outcomes, and for the collection of data for its performance measures. It may be appropriate for an entity to provide additional disclosure about how the entity is working to this aim.	Noted.
Auckland roundtable	Attribution is a challenge but general agreement it should be there. Entities are overstating their impact - change in wording from “resulted in” to “contribute to” Example of entities planting trees – if you add up the number of trees in reports, there are many more than have been planted as many entities involved in, and are reporting, the planting of the same tree.	Support for attribution noted.
Wellington	<ul style="list-style-type: none"> Public sector concern re addition of attribution 	Concern related to attribution noted.

Question 12: Do you agree with the identified assertions? If not, please explain why not. Are there further assertions you consider should be included? Please explain.

Respondent	Comment	Staff Response to the comment
	<ul style="list-style-type: none"> Maybe consider contribution instead of attribution 	
NZASB members	Noted that there were some useful observations made by submitters related to the assertions included in the exposure draft that may be worth considering	Noted. All responses have been included and have been or will be analysed in detail at the appropriate time.

Question 13: Do you consider that the ED adequately addresses the use of experts? If not, what additional requirements or application material do you consider are needed?

Respondent	Comment	Staff Response to the comment
KPMG	We believe this is clear.	Support noted.
BDO	We consider that the Exposure Draft adequately addresses the use of experts.	Support noted
Staples Rodway	We consider that the ED adequately addresses the use of experts by signposting to the requirements of ISA (NZ) 620. We do not consider that additional application material is required.	Support noted.
PWC	Yes, no specific comments.	Support noted.
OAG	As a matter of principle, it is our view that the ED should only contain material that is directly relevant to the audit of non-financial performance information, and where the auditor is required to do something differently or in addition to well-established audit practice. As a consequence, we do not consider that reference to the use of experts should be included in the ED. The reason for this is that the ED is expected to be applied concurrently with the ISA (NZ)s. The current content simply repeats material contained in ISA (NZ) 620. As set out in section 2 of Attachment 1, where there is a need to extend established audit procedures to cover service performance information, it is our view that this should be done by amending the underlying ISA (NZ)s.	Removed as a separate requirement but flagged for consideration along with group audit and use of service providers.
AUASB	Overall the ED 2017-2 adequately covers the use of experts in paragraph A56. Some further examples of experts may add value, such as experts in the following areas: <ul style="list-style-type: none"> • Climate change calculations; • Specific scientific measurements; • Social impact measurement; • Human rights performance; and • People and diversity disclosures. 	Included in mark up
CAANZ	Yes, we consider the ED adequately addresses the use of experts.	Support noted.
Treasury	N/A	

Question 13: Do you consider that the ED adequately addresses the use of experts? If not, what additional requirements or application material do you consider are needed?

Respondent	Comment	Staff Response to the comment
Mr. Carson	I am not sure there is a need for the use of experts. The auditor should through step 1 obtain sufficient understanding of the entity.	Noted

Question 14: Do you consider that the ED adequately addresses the use of another practitioner? If not, what additional requirements or application material do you consider are needed?

Respondent	Comment	Staff Response to the comment
KPMG	We believe this is clear.	Support noted
BDO	We consider that the Exposure Draft adequately addresses the use of another practitioner.	Support noted
Staples Rodway	We consider that the ED adequately addresses the use of another practitioner by signposting to the requirements of PES 1 (Revised). We do not consider that additional application material is required.	Support noted
PWC	Yes, no specific comments.	Support noted
OAG	In keeping with our comment on the use of experts under 13 above, we do not consider the ED should contain material about the use of another practitioner.	Sub-committee still considers use of experts is an important factor where the information may be beyond the expertise of the auditor.
AUASB	N/A	
CAANZ	Yes, we consider the ED adequately addresses the use of another practitioner.	Support noted
Treasury	N/A	
Mr. Carson	Yes. This is no difference from auditing financial information obtained from another entity.	May support OAG view that it is not really needed in the ED.

Question 15: Do you agree with the proposed scope and requirements for reporting the auditor’s opinion on the GPFR? If not, please explain why not and identify any alternative proposals.

Respondent	Comment	Staff Response to the comment
KPMG	We agree with these requirements, with the exception of the challenges in opining on the suitability of the service performance criteria as discussed above.	Support noted. Opinion on the suitability of the criteria is not in the ED.
BDO	We consider that the Exposure Draft’s proposed requirements for reporting the auditor’s opinion on the general purpose financial report are appropriate.	Support noted
Staples Rodway	We consider that inclusion of an explicit opinion on whether the criteria selected by the entity are suitable (as outlined in EG Au9 and para 56 of the ITC) within the audit report would be useful.	See analysis in response to Q16.
PWC	The proposed requirements appropriately reflect the reporting framework, which requires the service performance information to be reported as part of the GPFR.	Raised with XRB.
<p>However, with consideration to the cost / benefit assessment of the impacts of the standard, alternative reporting could be considered. For example; the service performance information could be treated as ‘other information’ where the no assurance conclusion is given but that the information is read by the auditor and it is concluded that this is not considered to be materially inconsistent with the financial statements or the auditor’s knowledge of obtained in the audit. We acknowledge this is a financial reporting framework challenge.</p>		
OAG	<p>Apart from the matter noted below, we agree with the proposed scope and requirements for reporting the auditor’s opinion on the GPFR.</p> <p>We note that ISA (NZ) 700 (Revised) - in paragraph 25 (a) - requires the auditor to use the following wording when expressing an unqualified opinion on an entity’s financial statements:</p> <p>“... the accompanying financial statements present fairly [emphasis added], in all material respects, [...] in accordance with [the applicable financial reporting</p>	<p>Overarching support noted.</p> <p>There is distinction drawn depending on whether the framework is a fair presentation framework (in which case the words “present fairly” are used) or a compliance framework in which case the words “present fairly” are not appropriate.</p>

Question 15: Do you agree with the proposed scope and requirements for reporting the auditor’s opinion on the GPFR? If not, please explain why not and identify any alternative proposals.

Respondent	Comment	Staff Response to the comment
	framework].” The words “present fairly” appear to have been omitted from the ED - in paragraphs 6(c) and 56.	The tier 4 framework is not a fair presentation framework and therefore these words are not included in those paragraphs but are referred to in the amended draft para 51 where there is a reference to a fair presentation framework.
AUASB	N/A	
CAANZ	We agree with the proposed scope and requirements for the auditor’s report, and that the opinion should be kept as simple as possible.	Support noted.
Treasury	N/A	
Mr. Carson	Yes.	Support noted.

Question 16: Do you consider that users of the auditor's report would benefit from additional information in the auditor's report? For example, information as to why the auditor considers that the service performance criteria are suitable, underlying facts or findings or recommendations related to the suitability of the service performance criteria. Please explain why.

Respondent	Comment	Staff Response to the comment
KPMG	No, we do not believe additional information should be required. We are of the opinion that any additional information would confuse the users of the auditor's report . Our rationale for this is two-fold. Firstly, we believe that specifically calling out additional information relating to the SSP will lead the users to believe that the SSP is somehow distinct from the other statements and cause confusion to whether or not the auditing standards have been applied consistently. Secondly, we believe that due to the wide variations of SSP reporting and the criteria set, there would be no practical way to ensure consistent language is used across the industry.	Concern at potential to confuse users. Preference remains to allow but not require long form reporting
BDO	We consider that the audit report requirements provided in ISAs should be extended only to the extent necessary for the auditor to opine on the service performance information. On that basis, we do not consider that auditor reporting requirements should be extended to include any other information on the entity's service performance reporting.	Noted. Do not support including additional information
Staples Rodway	We consider that users of the auditor's report may benefit from the inclusion of additional information in the auditor's report , such as an overview of the scope of the audit work undertaken in relation to service performance information. In our view this may assist users in understanding the respective roles and responsibilities in relation to this information. It may also help bridge the 'expectation gap' that often arises between preparers and auditors . To some extent information on the audit process is provided to users as part of the 'auditors responsibilities' section. However, this information is generally quite generic, rather than tailored to the individual engagement. We consider it would be more useful if a high-level overview of the audit procedures performed were separately described under the Basis for Opinion section as is done with assurance reports provided in accordance with ISAE (NZ) 3000,	Support for inclusion of additional information noted. May already be covered – to be considered in marked up draft.

Question 16: Do you consider that users of the auditor’s report would benefit from additional information in the auditor’s report? For example, information as to why the auditor considers that the service performance criteria are suitable, underlying facts or findings or recommendations related to the suitability of the service performance criteria. Please explain why.

Respondent	Comment	Staff Response to the comment
	Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.	
PWC	We consider that the responsibility for the suitability of SPI including the criteria applied to identify the SPI and the communication of the judgements made should primarily be management’s responsibility. The proposed audit report adequately reflects the auditor’s responsibility to evaluate this information.	Support for proposed audit report noted.
OAG	<p>We do not consider that users of the audit report would benefit from additional information about service performance information being included in the auditor’s report. Currently, there is no requirement to similar additional information in relation to the reported financial information. It is our view that there should be consistency between how financial information and performance information are audited and reported on.</p> <p>As discussed in Attachment 1 of our submission we have recommended that the reference to “service performance criteria” is replaced with “qualitative characteristics and pervasive constraints”. If the wording in the audit report is suitably amended to reflect our comments on criteria, we do not consider any additional information needs to be included in the auditor’s report.</p> <p>Our reasoning is that the accounting standards integrate both financial and non-financial components of a general purpose financial report. The results of the audit should be communicated on the same basis.</p>	Lack of support for including additional information on SPI noted.
AUASB	<p>In Australia ASAE 3100 Compliance Engagements (equivalent NZ SAE 3100) allows for a long-form report which may include additional information that includes:</p> <ul style="list-style-type: none"> • Materiality levels; • Underlying facts and criteria applied; and 	Support for allowing long form report noted.

Question 16: Do you consider that users of the auditor's report would benefit from additional information in the auditor's report? For example, information as to why the auditor considers that the service performance criteria are suitable, underlying facts or findings or recommendations related to the suitability of the service performance criteria. Please explain why.

Respondent	Comment	Staff Response to the comment
	<ul style="list-style-type: none"> Recommendations <p>This approach is discussed in application material as it goes beyond the basic elements under the requirements of ASAE 3000 and ASAE 3100. The ATG believe allowing this long-form report as an option may provide the users of the auditor's report on SPI more useful information.</p>	
CAANZ	It is worth noting that changes to the auditor's report alone cannot respond to all user needs, and including additional information does not necessarily make it more informative. Such additional information is not included for the financial statements, so it also depends on how much emphasis of the SPI over the financial statements is desired. On the basis that the audits are performed concurrently and there is a single auditor's report on the GPFR, we believe the reporting on SPI should not be presented with undue and greater prominence than the reporting on the financial statements.	Lack of support for including additional information on SPI noted
Treasury	N/A	
Mr. Carson	<p>Not really. This is not a requirement for an audit opinion on the financial statements of an entity so why should it be a requirement for non-financial statements.</p> <p>It would be more informative if the entity was required to provide this information in its Notes to the Accounting Policies, ie provide information about its intervention logic etc.</p>	<p>Lack of support for including additional information on SPI noted,</p> <p>Support for inclusion of this information by the preparer noted.</p>
Wlg r/table	Confusion as to when the long form reporting would be used	Noted
NZASB sub-committee	NZASB members supported the short form audit reports – they consider that it achieves a balance by putting financial statements and service performance information on the same footing. One NZASB member thought the long form report	Lack of support for including additional information on SPI noted

Question 16: Do you consider that users of the auditor’s report would benefit from additional information in the auditor’s report? For example, information as to why the auditor considers that the service performance criteria are suitable, underlying facts or findings or recommendations related to the suitability of the service performance criteria. Please explain why.

Respondent	Comment	Staff Response to the comment
	would be unbalanced. Repeats comments made in response to whether the opinion should include an opinion on the criteria	

Question 17: Do you agree that the ED should allow flexibility rather than being prescriptive, i.e. requiring a short form report but allowing a long form report, to enable the auditor to add additional information where that information may better inform or meet user's needs? If not, please explain why not.

Respondent	Comment	Staff Response to the comment
KPMG	While we do agree that a flexible approach is best, we are concerned that allowing/promoting additional reporting may result in vastly different reporting . Our concern is that given the varying nature of these entities, it may be easier to report on specific items for one entity but more difficult for others. We are concerned that this may cause vastly different reporting and that the inconsistencies would confuse users .	Concerns for promoting variation in reporting noted.
BDO	We consider that the audit report requirements provided in ISAs should be extended only to the extent necessary for the auditor to opine on the service performance information. On that basis, we consider that a final standard based on the Exposure Draft should be silent on extending the auditor's report to include any other information on the entity's service performance reporting.	Lack of support for including additional information on SPI noted.
Staples Rodway	We agree that the ED should allow for flexibility rather than be prescriptive with respect to whether a short form or long form audit report should be provided. While a long form report will provide more information to users and help develop users understanding of the audit process it will not help with the scalability of the ISA (NZ)'s and is likely to lead to increased compliance costs and the inclusion of boilerplate disclosures. As such we support the requirement for a short form report, with the ability to include a longer form report if users demand it.	Support for flexibility noted.
PWC	Yes , no specific comments.	Support for flexibility noted.
OAG	In our view, the ED should not allow the long form report. The short form audit report is sufficient to convey issues about service performance information to users. Where the auditor has concerns about reported service performance information, or wishes to draw attention to a particular aspect of the service	Note lack of support for long form report.

Question 17: Do you agree that the ED should allow flexibility rather than being prescriptive, i.e. requiring a short form report but allowing a long form report, to enable the auditor to add additional information where that information may better inform or meet user's needs? If not, please explain why not.

Respondent	Comment	Staff Response to the comment
	performance information, the short form can adequately report those concerns or matters for attention to users.	
AUASB	N/A	
CAANZ	We agree the auditor should have discretion over whether additional information is meaningful and highly relevant and hence should be included, but should avoid using wording that may be regarded as modifying the auditor's opinion.	Support for flexibility noted.
Treasury	N/A	
Mr. Carson	Yes, definitely allow flexibility.	Support noted.

Question 18: Do you consider that it is necessary for the auditor to opine on the suitability of the entity's service performance criteria explicitly, as illustrated in paragraph 56 of this ITC? If so why?

Respondent	Comment	Staff Response to the comment
KPMG	No, we do not believe that it should be required. We believe that in doing so would cause further confusion for the users, especially considering the inconsistencies this would create when compared to the reporting on the other financial statements. We also believe that this is implied when we opinion on the SSP itself. I.e. if we issue an unmodified opinion on the GPFS, including the SSP, we are implying the criteria was suitable as well. Please also see our response to questions 3, 4 and 7 above about the difficulty to opine on the suitability as well.	Noted – against option explored in ITC.
BDO	We consider that amending the audit report to state the auditor's responsibilities in relation to assessing the suitability of the entity's service performance criteria is appropriate. We do not consider that it is appropriate to require an explicit statement in the auditor's report of the auditor's opinion on the suitability of the entity's service performance criteria.	Noted – against option explored in ITC.
Staples Rodway	We consider that inclusion of an explicit opinion on whether the criteria selected by the entity are suitable (as outlined in EG Au9 and para 56 of the ITC) within the audit report would be useful . We recognise there is a trade-off between keeping the audit report simple and understandable and providing enough information on the work undertaken to enable users to understand the audit. We consider that inclusion of an explicit opinion regarding whether the criteria have been assessed as suitable would assist with users understanding the level and nature of work undertaken by the auditors, without greatly extending the size of the audit report.	Support for including an explicit opinion on the suitability of the criteria– this is not as proposed in the ED – support for option 2.
	We consider that the audit report should not include information as to why the auditor considers that the service performance criteria are suitable . An explanation of why the auditor considers that the service performance criteria are suitable may risk giving the impression that the auditor has had a role in	Consider in amended draft.

Question 18: Do you consider that it is necessary for the auditor to opine on the suitability of the entity's service performance criteria explicitly, as illustrated in paragraph 56 of this ITC? If so why?

Respondent	Comment	Staff Response to the comment
	<p>selecting this criteria. Such disclosure is also unlikely to add information value to the readers of the audit report and may quickly become 'boilerplate'.</p> <p>In our view the financial report itself should describe the entity's service performance criteria and their sources' (if required by the financial reporting framework). The audit opinion would then cover these disclosures. If there is no requirement for preparers to disclose the criteria used or their sources then we do not consider it would be appropriate to require the audit opinion to disclose these criteria on behalf of the entity.</p> <p>We consider that underlying facts or findings or recommendations related to the suitability of the service performance criteria are best included in the management letter (reporting to TCWG). This is in line with the approach taken in the audit of the financial statements, that no new information is introduced in the audit report[1].</p>	<p>The auditor is required to evaluate whether the preparers disclosures will make it clear as to the basis of preparation.</p>
PWC	No – See question 20	Noted – against option explored in ITC
OAG	We do not consider it is necessary for the auditor to separately opine on the suitability of the entity's performance measures.	Noted – against option explored in ITC
AUASB	N/A	
CAANZ	No. We believe the same principles should be applied to reporting on SPI as for reporting on the financial statements. There is no separate opinion on the acceptability of the financial reporting framework to be applied in the preparation of the financial statements (because it is a precondition for the audit). We do acknowledge though that the auditor is not required to withdraw from the audit of the GPFR if the service performance criteria are not suitable which is a differentiating factor. However if this were the case, this would be reported by way of a modified opinion on the SPI.	Noted – against option explored in ITC

Question 18: Do you consider that it is necessary for the auditor to opine on the suitability of the entity's service performance criteria explicitly, as illustrated in paragraph 56 of this ITC? If so why?

Respondent	Comment	Staff Response to the comment
Treasury	N/A	
Mr. Carson	Yes. This follows the approach of providing an opinion on financial statements.	Noted.

Question 19: Alternatively, do you agree with the proposals in the ED, that it is not necessary to opine on the suitability of the entity's service performance criteria, but that this is implicit and is better covered in the responsibilities of those charged with governance and the responsibilities of the auditor?

Respondent	Comment	Staff Response to the comment
KPMG	We agree with this. See above.	Support for ED
BDO	We consider that amending the audit report to state the auditor's responsibilities in relation to assessing the suitability of the entity's service performance criteria is appropriate. We do not consider that it is appropriate to require an explicit statement in the auditor's report of the auditor's opinion on the suitability of the entity's service performance criteria.	Support for opinion in the ED noted.
Staples Rodway	As stated in 16. above, we consider it would be useful for the auditor to explicitly opine on the suitability of the entity's service performance criteria. In our view this will help communicate to users the role of the auditor and may help confirm that TCWG are responsible for establishing the criteria which the service performance information has been reported against.	Support for alternative option in the ITC noted.
PWC	Yes – See question 20	Support for ED
OAG	We agree with this approach.	Support for ED
AUASB	N/A	
CAANZ	Yes, we agree that it is not necessary to opine on the suitability of the entity's service performance criteria. Refer to our response to question 18.	Support for ED
Treasury	N/A	
Mr. Carson	No, don't agree.	Support for alternative option in the ITC noted.

Question 20: Which opinion do you consider will be better understood by the user of the auditor's report and why?

Respondent	Comment	Staff Response to the comment
KPMG	Our preference would be to not opine on the suitability of the criteria as this is consistent with current reporting practises and how we would report on the other financial statements. We believe opining on the suitability of the criteria will cause further confusion to any user who is not familiar with that requirement in the accounting / auditing standards. We also believe there may be circumstances where the opinion on the suitability of the criteria could differ to the opinion on the SSP itself and that these circumstances would cause misunderstandings of the overall message. We believe that it would be clearer and more understandable for the users of the financial statements if we are only issuing one opinion.	Support for option in the ED noted.
BDO	We consider that an audit report that aligns as closely as possible with other audit reports (i.e. audit reports where the audit is solely of historical financial information) are likely to be best understood by users of the auditor's report. On that basis, we consider that the audit report requirements provided in ISAs should be extended only to the extent necessary for the auditor to opine on the service performance information.	Support for option in the ED noted
Staples Rodway	No, as noted in 18. above, we consider it is preferable to provide an explicit statement in the opinion regarding the suitability of the entity's service performance criteria. We consider that the two-part opinion will be better understood by users as this provides clarity regarding the two-step approach to auditing service performance information. There is a danger that users will not easily understand implied opinions. Making the opinion over the suitability of criteria selected by TCWG explicit also enables the auditor to modify the audit report at this stage of the process.	Support for alternative option in the ITC noted.
PWC	We consider that the proposed opinion (para 62 of the ED) to be appropriate. To opine explicitly on the suitability of the SPI would be to give that aspect of	Support for option in the ED noted

Question 20: Which opinion do you consider will be better understood by the user of the auditor's report and why?

Respondent	Comment	Staff Response to the comment
	the audit undue prominence. The flexibility of the form of the report enables the auditor to raise concerns where appropriate.	
OAG	We prefer an opinion that does not separately opine on the suitability of the entity's performance measures. Our reasoning is that the accounting standards integrate both financial and non-financial components of a general purpose financial report. The results of the audit should be communicated on the same basis.	Support for option in the ED noted
AUASB	N/A	
CAANZ	Our preference is for one single opinion, but it could be further simplified as follows: In our opinion the accompanying financial report [presents fairly, in all material respects/gives a true and fair view of], the [financial position of the [entity] as at December 31, 20X1, and its financial performance, cash flows] and service performance for the year then ended in accordance with [the applicable financial reporting framework]. Users will not necessarily understand the nuance of separating out the service performance information and the financial statements within the opinion to mean that the dual opinion can be split.	Support for option in the ED noted
Treasury	N/A	
Mr. Carson	The opinion in para 56 of the ITC. It is explicit and allows for except for statement(s) by the auditor.	Support for option in the ED noted
Auckland roundtable	General consensus to prefer option 1. Remove bullets completely. What about entity information?	Support for option in the ED noted
Wlg r/table	Preference of majority is for option one, as exposed in the ED	Support for option in the ED noted
NZASB subcommittee members	Support the focus proposed in the ED, which was to focus on the reporting of service performance information in accordance with PBE FRS 48 <i>Service Performance Reporting</i> (PBE FRS 48). Most respondents also supported this approach and NZASB members encouraged the NZAuASB to continue with it.	Support for option in the ED noted

Question 20: Which opinion do you consider will be better understood by the user of the auditor's report and why?

Respondent	Comment	Staff Response to the comment
	<p>Support for focusing on the information required to be disclosed under PBE FRS 48 was seen as a positive outcome. The proposals in the ED put the audit opinion on service performance information on a similar footing to the audit opinion on financial statements, which the NZASB members consider makes sense.</p>	
	<p>The proposals in the ED put the audit opinion on service performance information on a similar footing to the audit opinion on financial statements, which the NZASB members consider makes sense.</p>	

Question 21: Are there any additional factors that should be described in the description of the responsibilities of those charged with governance in the auditor's report?

Respondent	Comment	Staff Response to the comment
KPMG	No, we believe the proposed approach would be sufficient.	Support for ED noted.
BDO	We have not identified any additional factors that should be included in the description of the responsibilities of those charged with governance in the auditor's report.	Support for ED noted
Staples Rodway	We have not identified any additional factors that should be described in the description of responsibilities of TCWG.	Support for ED noted
PWC	No comments to make.	Support for ED noted
OAG	We do not consider there are any additional factors that should be described in the description of the responsibilities of those charged with governance in the auditor's report.	Support for ED noted
AUASB	N/A	
CAANZ	We do not believe there are additional factors that should be prescribed. We note that paragraph 13 of the ED establishes the responsibilities of those charged with governance in the context of preconditions for the audit, which are then referred to in paragraph 15(c) in relation to the terms of the engagement. Paragraph 63(b) then repeats an abridged version of these responsibilities for the purpose of the auditor's report which may cause confusion. Also, the responsibility of those charged with governance "to provide the auditor with access to all information ..." does not appear to be reflected in proposed illustration 3A for the appendix of ISA (NZ) 700.	Support for ED noted Align description of the responsibilities of TCWG throughout. ISA 700 does not include this description in the illustrative reports for any audit report. Do not recommend adding this for SPI only.
Treasury	N/A	
Mr. Carson	No	Support for ED noted

Question 22: Are there additional factors that should be described in the auditor's responsibilities section or that would be helpful to provide a better context about the audit of the service performance information?

Respondent	Comment	Staff Response to the comment
KPMG	No, we believe the proposed approach would be sufficient.	Support for ED noted
BDO	We have not identified any additional factors that should be included in the description of the auditor's responsibilities in the auditor's report.	Support for ED noted
Staples Rodway	We have not identified any additional factors that should be described in the auditor's responsibilities section.	Support for ED noted
PWC	No comments to make.	
OAG	We do not consider there are any additional factors that should be described in the auditor's responsibilities section or that would be helpful to provide a better context about the audit of the service performance information.	Support for ED noted
AUASB	N/A	
CAANZ	We do not believe there are additional factors that should be prescribed. We note that paragraph 15(b) of the ED requires the terms of the engagement to include the responsibilities of the auditor with respect to the service performance information. A cross-reference to paragraph 63(c) where these are listed would be well received.	Support for ED noted The responsibilities of TCWG are now listed in the requirement related to the engagement terms and match the requirements for the auditor's report.
Treasury	N/A	
Mr. Carson	No	Noted

Question 23: Is the ED clear as to the implications where the auditor determines that it is necessary to modify the opinion in respect of the service performance information? If not, please expand on what clarification is needed.

Respondent	Comment	Staff Response to the comment
KPMG	Yes, we believe this is clear.	Support for ED noted
BDO	We consider that the Exposure Draft provides sufficient guidance regarding the implications when the auditor determines that it is necessary to modify the opinion in respect of the service performance information.	Support for ED noted
Staples Rodway	In our view the ED provides useful explanation and illustrative examples regarding the implications in the event the auditor determines it is necessary to modify the opinion in respect of service performance information. This explanation and the corresponding illustrative examples will need to be updated should the NZAuASB agree it is appropriate to include an explicit opinion regarding the suitability of criteria adopted.	Support for ED noted
PWC	Yes	Support for ED noted
OAG	We consider the ED is clear on this matter.	Support for ED noted
AUASB	N/A	
CAANZ	Yes, we believe it is clear.	Support for ED noted
Treasury	N/A	
Mr. Carson	The opinion in para 56 of the ITC. It is explicit and allows for except for statement(s) by the auditor.	Support for ED noted

Question 24: Do you agree that aligning the effective date with the proposed Tier 1 and Tier 2 PBE Accounting Requirements is appropriate?

Respondent	Comment	Staff Response to the comment
KPMG	We agree with this approach	Noted
BDO	We agree with the Exposure Draft's proposal to align the effective date with the effective date of PBE FRS 48 Service Performance Reporting. As Tier 3 public benefit entities already have a statutory requirement under specified circumstances to have their service performance information audited, we agree that the standard should be available for earlier adoption.	Noted
Staples Rodway	We agree that aligning the effective date with the proposed Tier 1 and Tier 2 PBE accounting requirements is appropriate. There is a risk that PBE's, particularly NFP's who have not previously reported service performance information within their financial report, may not have a sufficiently well-developed service performance framework, suitable criteria or adequate systems and processes for collating and reporting service performance information, when the financial reporting standard becomes effective. As a result, the first year of adoption of the financial reporting and corresponding auditing standard may see an increase in the number of modified audit reports. We consider this risk is outweighed by the importance of ensuring that the information provided is subject to a reasonable level of assurance so that users can have confidence in this information.	Noted. Same concern as PwC related to inadequate systems and processes, etc, however note conclusion that risk is outweighed by benefit.
PWC	Yes	
OAG	We note that PBE FRS 48 applies for annual reports covering periods beginning on or after 1 January 2021. PBE FRS 48 permits earlier application. Aligning the effective date of the ED to the application date of PBE FRS 48 and allowing early adoption seems reasonable.	Noted
AUASB	N/A	
CAANZ	We agree with aligning the effective date with PBE FRS 48. We also agree with permitting early adoption which may be desirable for auditors of Tier 3 and 4 PBEs who already have a requirement to report service performance information.	Noted

Question 24: Do you agree that aligning the effective date with the proposed Tier 1 and Tier 2 PBE Accounting Requirements is appropriate?

Respondent	Comment	Staff Response to the comment
Treasury	N/A	
Mr. Carson	Yes	Noted

Question 25: The next phase of this project will be to develop a review engagement standard. Do you have any comments as to how a review standard would differ from the proposals in this ED?

Respondent	Comment	Staff Response to the comment
KPMG	We believe that assessing the suitability of the criteria should be removed from a Review Standard. We believe that doing so for a review engagement would be too onerous and too costly.	Noted. ISAE 3000 requires a practitioner to evaluate the suitability of the criteria irrespective of the level of assurance. Carry forward comment to next phase.
BDO	We support the development of a review engagement standard for service performance information, but at this stage we do not have any comments on how such a standard might differ from the proposals provided in the Exposure Draft.	Noted
Staples Rodway	In terms of the development of a review engagement standard, the key area of difference we foresee is the reporting section, given the different levels of assurance provided. For the review engagement report we do not consider it would be necessary to make the auditor's opinion over the suitability of the service performance information criteria explicit. The review engagement report could be along the lines of 'nothing has come to our attention to suggest that the service performance framework is not appropriate or that the disclosures are not fairly stated'.	Noted. Carry forward comment to next phase.
PWC	No comments to make.	Noted
OAG	We have raised a number of significant matters about the ED. If those matters are resolved, we do not envisage that a review standard would depart significantly from the approach described in the ED.	Noted
AUASB	N/A	
CAANZ	No, not at this stage.	Noted
Treasury	N/A	
Mr. Carson	It should be very similar, and include information about the intervention logic and service performance framework.	Noted

Question 26: Do you have any other comments on ED NZAuASB 2017-2?

Respondent	Comment	Staff Response to the comment
KPMG	One other concern we have regarding this ED are the practical issues that come with this standard not being included in the ISA (NZ) suite of auditing standards. We acknowledge that this is the first New Zealand specific auditing standard, however, having two sets of auditing standards is going to create practical annoyances . For example, in engagement letters and auditor's reports, we would be required to call out both the ISA (NZ) standards and this NZ AS standard. It would be our preference to avoid this if possible.	Noted. Consider is issues paper.
BDO	We do not have any additional comments.	Noted
Staples Rodway	Suggested changes to second sentence to better articulate the concurrent approach to auditing financial and service performance information: <i>'...together withand the service performance information so that the audit is performed in the most effective manner and reflects the any correlation with the audit of the financial statements'between this information and information obtained as part of the audit of the financial statements'.</i> <i>Page 28 para 21</i>	Consider editorials in mark up of the standard
Staples Rodway	Insert [for the audit of the financial information] between 'determining performance materiality' and 'as required by ISA (NZ) 320'. <i>Page 29 para 26</i>	Consider editorials in mark up of the standard
Staples Rodway	Suggested changes to second sentence to better articulate the concurrent approach to auditing financial and service performance information: <i>'The auditor shall also requestensure the written representations from those charged with governance with includes explicit confirmation of their appropriate responsibilities for their service performance information and knowledge of the matters concerned'.</i> <i>Page 33 Para 51</i>	Consider editorials in mark up of the standard
Staples Rodway	Include Para 58 (regarding assessment of suitability of criteria) before para 57 (regarding conclusion on level of assurance and audit evidence obtained) (to reflect the chronological nature of these steps). <i>Page 35 Para 58</i>	Consider editorials in mark up of the standard
Staples Rodway	Insert [audit of] between 'ISAE (NZ) 3000 (Revised) to the' and 'service performance information'. <i>Page 41 para A10.</i>	Consider editorials in mark up of the standard
PWC	No comments to make.	Noted

Question 26: Do you have any other comments on ED NZAuASB 2017-2?

Respondent	Comment	Staff Response to the comment
OAG	<p>We are concerned about the reference to “Entity Information” in paragraph 8 and Appendix 1 of the ED. It is our view that this type of information does not generally affect the reported performance of an entity (either financial or non-financial) and therefore, it should not be subject to audit. Instead, it should be regarded as “Other Information”, and considered in accordance with ISA (NZ) 720 (Revised): The auditor’s responsibility relating to other information.</p> <p>We note that this is a direct consequence of the accounting standards for Tiers 3 and 4 requiring entity information to be reported as part of the general purpose financial report. It is our view that this is the part of the service performance information that is set aside for management commentary and, as such, has not been prepared for audit. In our view, the scope of the underlying accounting standards should be reviewed.</p>	<p>Provide feedback to the NZASB – whilst entity information is part of GPFR and GPFR is subject to statutory assurance, entity information is by law subject to audit.</p>
AUASB	<p>Materiality</p> <p>Para A35: The ATG suggest that "material issues significantly influence" PBE/stakeholder decisions rather than being simply "taken into consideration", which is a stronger statement in terms of materiality.</p> <p>Para A36: Final sentence, second bullet point could be extended to include more sources of information see comments on paragraph A44 below.</p> <p>Para A41: Consider extending qualitative statements to incorporate balance, transparency, clarity, credibility and trust.</p> <p>Understanding the Entity and Its Environment, Including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement</p> <p>Para 44:</p> <ul style="list-style-type: none"> 5th bullet point highlights surveys — explain that these can include customer satisfaction surveys, Employee engagement surveys; and 	<p>Consider editorials in mark up of the standard</p>

Question 26: Do you have any other comments on ED NZAuASB 2017-2?

Respondent	Comment	Staff Response to the comment
	<ul style="list-style-type: none"> Stakeholder consultation — explain that this can include feedback, complaints, targeted interviews, multi-stakeholder workshops. <p>Other general comments not specifically linked to questions in the ITC:</p> <p>ITC Para 23, pg 11: A number of standards and guidance are referenced — it would make sense to include the International Integrated Reporting Council (IIRC) <IR> Framework in these references.</p> <p>ED 2017-2 Para 7: NZAuASB may want to consider further definitions as new terminology is used for non-financial service performance information e.g. climate change, social impact and people and diversity disclosures. In addition if the final SPI assurance standard does incorporate the option to include a long form report as discussed above at Question 16, the NZAuASB may consider including a definition of this consistent with ASAE 3100 Compliance Engagements (equivalent NZ SAE 3100).</p>	<p>Not included in standard — therefore could include in basis for conclusions when drafted but not needed in standard.</p> <p>Do not recommend adding definitions not included in the accounting standard. Also need to draw a distinction between SPI and integrated reporting/other forms of non-financial reporting.</p> <p>Consider adding definition of long form report in mark up.</p>
CAANZ	<p>Paragraph 61(c) requires the entity's service performance criteria to be identified in the opinion section of the auditor's report. In the illustrative auditor's reports in appendix 4 of the ED, these are identified in the basis for opinion section instead. In proposed illustration 3A for the appendix of ISA (NZ) 700 this appears to be absent altogether.</p> <p>An illustrative auditor's report that opines on entity information that is required to be reported by Tier 3 and 4 simple format reporting standards would also be well received, as entity information is also within the definition of financial statements.</p> <p>We note that slide 28 of the roundtable discussion presentation says "EG Au9 to be withdraw once audit and review standard issued". We encourage NZAuASB to only withdraw EG Au9 once both the audit and review standard are effective.</p>	<p>This has been deleted from the requirements. Also removed from the illustrative report where it was included in the section on the responsibilities of TCWG.</p> <p>Consider adding an illustrative example.</p> <p>Noted. If the standards permit early adoption consider need to defer withdrawal when review standard has been developed.</p>

Question 26: Do you have any other comments on ED NZAuASB 2017-2?

Respondent	Comment	Staff Response to the comment
Treasury	N/A	
Mr. Carson	No	
Wellington roundtable	Reference to ISAs (NZ) and 3000 in report is currently confusing – move to ISAs (NZ) and NZ AS is not going to work – unnecessarily confusing. (Suggestion that if XRB Au1 includes the domestic standards as part of the suite then no need to refer to both).	Noted. Consider is issues paper

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1
Meeting date:	6 June 2018
Subject:	Consider developing guidance for Audit Committees
Date:	26 May 2018
Prepared by:	Peyman Momenan

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Agenda Item Objectives

For the Board to:

DECIDE whether there is a need to develop guidance for audit committees

Background

1. In 2017 the Auditing and Assurance Standards Board, the Australian Institute of Company Directors and the Institute of Internal Auditors-Australia published the 3rd Edition of *Audit Committees: A Guide to Good Practice*. This third edition reflects developments (since the 2nd Edition in 2012) in audit committee practice, legislation and guidance from regulatory bodies and in leading global board practices. In particular, it has been updated for the latest ASX Corporate Governance Council's Principals and Recommendations, newly released ASIC guidance notes and information sheets and the requirement for key audit matters to be discussed and communicated through the audit report.
2. At its September 2017 meeting the NZAuASB approved its Strategic Action Plan (SAP) for the 2017-22 period, and the 2017/18 Implementation Plan. The SAP includes an action for the Board to consider whether to develop guidance for Audit Committees, similar to the guidance issued in Australia in 2017.

Matters to Consider

3. We have included relevant information in Agenda item 6.2 to assist the Board in deciding whether there is a need for the NZAuASB to develop guidance for audit committees.
4. We ask that the Board provide us with feedback on the questions posed in the issues paper at agenda item 6.2.

Material Presented

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Issues paper
Agenda item 6.3	3rd Edition of the Audit Committees: A Guide to Good Practice published in Australia in 2017
Agenda item 6.4	PwC Audit Committee Guide

The Objective of this paper is to:

- A. Provide an overview of matters included in the 3rd Edition of the Audit Committees: A Guide to Good Practice published in Australia in 2017. Agenda item 6.3 includes a copy of the guide.
- B. Highlight key guidance material that is already available to New Zealand audit committees.
- C. Establish whether there are significant gaps between the available guidance in New Zealand and the Australian guidance.
- D. Based on A to C above, consider if there is a need for the Board to develop guidance similar to the one published in Australia.

A. Matters included in the Australian Guidance

1. This guide provides a practical introduction to the role and responsibilities of an audit committee. It explains the context in which an audit committee typically operates and outlines good practice. The guide is primarily for directors and audit committees of Australian listed companies. However, directors and audit committees of not-for-profit, public sector and other private sector entities may also find this guide to be a useful reference.
2. The guidance covers the following matters:
 1. An overview of legal requirements and best practices for directors to establish committees, including an audit committee.
 2. An overview of relevant regulatory requirements, standards and guidance. This includes the Corporations Act 2001, ASX Listing Rules and Corporate Governance Guidelines, AASB Accounting Standards, AUASB Auditing Standards, ASIC Act, Australian Prudential Regulatory Authority, Accounting Professional and Ethical Standards Board, International Professional Practices Framework and Standards Australia.
 3. Responsibilities of the audit committee. This includes corporate reporting (with emphasis on annual financial reporting obligations and processes), external audit, internal audit, risk management and internal controls, fraud and corruption and compliance with laws, regulations and other requirements, Ethics and organisational culture.
 4. Relationships with the board of directors, external auditor and internal auditor.
 5. The charter of an effective audit committee
 6. Membership of audit committee
 7. Conducting meetings
 8. Reporting by the audit committee
 9. Assessing performance of the audit committee and evaluation of individual audit committee members.

B. Audit Committee Guidance available in New Zealand

3. Several organisations have published guides for audit committees in New Zealand. These guidance materials differ in terms of their:
 1. length (short and brief vs detailed and comprehensive),
 2. expected audience (large for-profit entities vs public sector),
 3. author (professional accounting firms, professional accounting bodies, bodies representing professional directors, NZ Auditor-General, the FMA and other prudential regulatory authorities), and
 4. direct vs indirect (i.e. direct guidance for an audit committee vs guidance/standards for an audit committee embedded in corporate governance guides/principals/standards)
4. Notwithstanding the diversity of guidance material useful to audit committees, in our view the following two sources of guidance are the most comprehensive and cover almost all the topics that are included in other shorter or topical guides.
 1. The Auditor-General website has [a dedicated webpage](#) including links to various useful guidance for public sector audit committees.
 2. PwC¹ Audit Committee Guide (included as Agenda item 6.4), Director's responsibilities: How audit committee members add value, published in 2015 and targeted for listed and other large for-profit entities in New Zealand.

C. Establish whether there are significant gaps between the available guidance in New Zealand and the Australian guidance.

5. The PwC guide aligns very closely with the Australian guide in terms of its expected audience and topics included. The PwC guide is as comprehensive as the Australian guidance and there are no major differences between the two guides.
6. However, the PwC guide has not been updated since being published in 2015. There have been developments in relevant legislations and some of the relevant requirements/standards/recommendations have been updated (e.g. NZX Listing Rules, the Corporate Governance in New Zealand Principles and Guidelines issued by the FMA). The introduction of Key Audit Matters and the focus on Audit Quality are other recent and relevant developments that are not mentioned in the PwC guide².

¹ Almost all major accountancy firms have published guidance for audit committees that are very similar to the PwC guide. The reason we highlight the PwC guide is its stronger New Zealand perspective in addressing the domestic requirements for having an audit committee and relevant regulatory considerations.

² While the PwC guide is not up to date in relation to these matters, the FMA and the NZAuASB has topical guidance publications for directors that directly deal with audit quality and KAM. Professional accounting bodies and firms have also published guidance on KAM. Also the Board of the International Organization of Securities Commissions (IOSCO) has recently published [Proposed Good Practices for Audit Committees in Supporting Audit Quality](#) and has invited feedback from its stakeholders. There seems to be adequate guidance available for audit committees on KAM and audit quality.

7. Also, the PwC guide only addresses the relevant requirements to have an audit committee. It does not provide an overview of roles and responsibilities of some key regulatory/standard setting bodies (e.g. the XRB and its subcommittees, the FMA, Other NZ Prudential Supervisors, Standards New Zealand).

D. Based on A to C above, consider if there is a need for the Board to develop guidance similar to the one published in Australia.

8. As noted above, several organisations have published guides for audit committees in New Zealand.
9. Overall, the PwC guide can be rated as equal to the Australian guidance, other than it has not been updated for relevant development since its publication in 2015.
10. Given the extent of publicly available guidance for audit committees, does the Board believe:
 - There is a need/value/ for some sort of 'authoritative' guidance for audit committees in New Zealand?
11. If so, and being mindful of the NZAuASB's strategy regarding audit quality³, should the NZAuASB :
 - develop the guidance;
 - approach other relevant participants in the reporting chain (for example IOD,NZX,FMA) to jointly develop such guidance; or
 - approach other relevant participants in the reporting chain (for example IOD,NZX,FMA) to develop such guidance? For example, by adopting the guidance being developed by IOSCO.

1. A key strategic action of the NZAuASB is to promote an understanding of the factors that affect audit quality, with specific actions to work with other key organisations to enhance audit quality.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	7.1
Meeting date:	6 June 2018
Subject:	IESBA roundtable on Non- Assurance Services and Professional Scepticism
Date:	24 May 2018
Prepared by:	Peyman Momenan

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Agenda Item Objectives

For the Board to provide:

- PRELIMINARY FEEDBACK on the discussion questions included in the upcoming IESBA's roundtable on non-assurance services and professional scepticism to inform:
 - the XRB's representative at the roundtable, and
 - the draft response to the consultation paper on Professional Scepticism which will be presented for the Board's consideration at its July meeting.

Background

1. The IESBA is seeking public comment by August 15, 2018 on its consultation paper, *Professional Skepticism – Meeting Public Expectations* (refer to Agenda item 7.2 for a copy of the paper). In response to regulatory and other stakeholder feedback on the topic, the paper explores:
 - The behavioural characteristics comprised in professional scepticism;
 - Whether all professional accountants should apply these behavioural characteristics; and
 - Whether the International Code of Ethics for Professional Accountants (including International Independence Standards) should be further developed to address behaviours associated with the exercise of appropriate professional scepticism.
2. Through this initiative, the IESBA also aims to reinforce the effective exercise of professional scepticism by auditors. The consultation paper was developed following close coordination with the IAASB and the International Accounting Education Standards Board (IAESB), and with advice from the IESBA Consultative Advisory Group. The paper will form the basis for discussion with a wide range of stakeholders at a series of three global roundtables in

Washington, DC, USA on June 11; Paris, France on June 15; and Tokyo, Japan on July 12. At its June 2018 meeting the IESBA will receive some limited feedback from those roundtables that have occurred by that time. At its September 2018 meeting the IESBA will receive preliminary feedback on the responses to the CP. A project proposal reflecting the results of the consultation process will be presented at the December 2018 IESBA meeting.

3. In addition to professional scepticism, Non-Assurance Services (NAS) is another topic on the Agenda in the upcoming IESBA roundtables. The NAS WG plans to present a summary and analysis of the feedback of the three roundtables, and its final report at the September and December 2018 IESBA meetings.

Questions to be discussed in the IESBA roundtables:

The discussion in the upcoming roundtables will focus on:

4. **Non-Assurance Services (NAS):** To enhance auditor independence, how best to delineate both the boundaries and types of NAS auditors can provide to their audit clients?

Auditor independence is critical to public trust in audited financial statements. The IESBA launched a NAS initiative to explore broad permissibility under its International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) in response to global regulatory developments and calls from stakeholders and the Public Interest Oversight Board. Stakeholders have identified specific NAS issues to be addressed. Those issues have been characterised in different and often interrelated ways, and require a consideration of whether:

- a) Judgments about materiality should be a factor in determining whether a particular NAS is permissible.
- b) There is a need for different NAS provisions for different types of entities (e.g., PIE and non-PIE provisions).
- c) The Code should include additional unconditional NAS prohibitions (“i.e. additions to the current black list in the Code”).
- d) There is a need to develop additional guidance for new and emerging types of services.
- e) There needs to be improved communication between auditors and those charged with governance (TCWG).
- f) Suggestions for disclosure and other matters should be addressed.

The draft NAS roundtable briefing note, which was provided to the NSS at the IESBA NSS meeting, is included in Agenda item 7.3.¹ Agenda item 7.3 includes the overview of the above issues and the questions that will be discussed in the roundtables.

Question for the board:

We ask that the Board provide us with preliminary feedback on the questions outlined on page 11 of agenda item 7.3

¹ The final briefing note has not yet been released but should be released by the date of the NZAuASB June meeting. We will inform the Board of any major changes at the June meeting.

5. **Professional Scepticism (SP):** How best to meet public expectations for all professional accountants, including auditors, to exercise “professional scepticism”?

Please refer to the consultation paper at agenda item 7.2 which introduces the following options:

- a) One option might be to require all professional accountants to exercise “professional scepticism” in the manner defined in the International Standards on Auditing, namely: “An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of the evidence.”
- b) A second option might be to require all professional accountants to exercise “professional scepticism” (i.e., retaining the term “professional scepticism”), but to develop a different definition that would be appropriate for all types of professional activity. However, the IESBA is concerned that it could create confusion by using one term to refer to two different types of behaviours and expectations, namely: The behaviour required of all professional accountants by the Code; and In the case of professional accountants involved in audit or other assurance engagements, the behaviour required by the IAASB standards.
- c) A third option might be to develop a different term to use with the definition of behaviour expected of all professional accountants.

Question for the board:

We ask for the Board’s preliminary feedback on the questions outlined on pages 11 and 12 of the consultation paper at agenda 7.2

Material Presented

Agenda item 7.1	Board Meeting Summary Paper
Agenda item 7.2	IESBA’s consultation paper: <i>Professional Skepticism – Meeting Public Expectations</i>
Agenda item 7.3	NAS Roundtable Briefing Note (Draft)

Roundtable Briefing Note

May 2018

*International Ethics Standards Board
for Accountants®*

**Non-assurance
Services**

Exploring Issues to Determine a Way Forward

IESBA

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This document has been prepared by the IESBA Non-assurance Services Working Group.

The International Ethics Standards Board for Accountants (IESBA) is a global independent standard-setting board. Its objective is to serve the public interest by setting high-quality ethics standards for professional accountants worldwide and by facilitating the convergence of international and national ethics standards, including auditor independence requirements, through the development of a robust [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants (IFAC).

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ROUNDTABLE BRIEFING NOTE – NON-ASSURANCE SERVICES

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NON-ASSURANCE SERVICES

EXPLORING ISSUES TO DETERMINE A WAY FORWARD

I. Background

1. Auditor independence is critical to public trust in audited financial statements, and contributes to audit quality. In recent years, there have been a number of legal and regulatory developments aimed at responding to issues affecting auditor independence, including audit firms' provision of **non-assurance services** (NAS)¹ to audit clients.²
2. Some stakeholders and the Public Interest Oversight Board have called for IESBA to review its International Independence Standards relating to the provision of NAS to audit clients.
3. Having completed a number of projects which culminated in the April 2018 release of a completely rewritten and substantively revised [*International Code of Ethics for Professional Accountants \(including International Independence Standards\)*](#) (the Code³), the IESBA has established a Working Group to further understand and respond to those calls.

An **assurance engagement** is an engagement in which a professional accountant in public practice (PAPP) expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

An **audit engagement** is a reasonable assurance engagement in which a PAPP expresses an opinion on whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework. This includes statutory audits, which is an audit required by legislation or other regulation.

Global Roundtables

4. In deciding to hold three global roundtables in North America (Washington, DC, USA), Europe (Paris, France), and Asia Pacific (Tokyo, Japan), the IESBA is seeking to further understand stakeholders' views about the public interest issues that might arise when firms and network firms provide NAS to their audit clients.

Purpose of Briefing Note

5. This briefing note summarizes the NAS issues that the IESBA has identified to-date, in particular, in relation to audit clients that are public interest entities (PIEs). Some of the issues were raised by

¹ Except where otherwise noted, NAS in this paper is used to refer to the term "non-assurance services" as used in the IESBA Code. In some jurisdictions the term "non-audit" services is used in describing similar issues. For example, the term "non-audit services" is used in the UK to cover any service that does not form part of the audit engagement (i.e., both "non-assurance" and "assurance services" other than an audit). The terms "non-audit services" and "non-assurance services" are not defined terms in the IESBA Code. However, the term "non-assurance services" is used throughout the Code when referring to engagements that do not meet the definition of an **assurance engagement**.

² The main focus of this paper and the roundtable discussions is on firms' provision of NAS to audit clients in the context of independence. Some of the issues may be relevant also to circumstances where firms provide NAS to assurance clients in the context of independence.

³ The references to "the Code" in this paper are to the revised and restructured Code which was [released](#) on April 9, 2018, and which will become effective in June 2019.

respondents to Exposure Drafts (EDs) relating to the IESBA's recently completed Safeguards and Structure of the Code (Structure) projects, and respondents to the IESBA's November 2017 [Fees Questionnaire](#). The paper is intended to facilitate a multi-stakeholder dialogue aimed at exploring practical and pragmatic solutions to the public interest issues that have been raised in relation to the provision of NAS by audit firms and is organized as follows:

- Overview of NAS provisions in the Code;
- General policy objective;
- Summary of specific issues identified by stakeholders; and
- Questions for roundtable participants.

II. Overview of NAS Provisions in the Code

6. In addition to the requirement to apply the enhanced conceptual framework⁴ to identify, evaluate and address threats when providing NAS to audit clients, Section 600⁵ of the Code contains general and specific requirements and application material that apply to firms and network firms when providing NAS to audit clients. The general provisions set out in paragraphs 600.1 to R600.10 of the Code are intended to apply in all situations when a NAS is provided to an audit client, while the additional and more specific provisions set out in subsections 601-610 apply when providing certain types of NAS. A list of the types of NAS that are dealt with in the Code is included in Appendix 1 of this document.
7. As part of the general provisions, the Code includes:
 - **An overarching requirement that prohibits the assumption of management responsibilities** when providing any NAS to audit clients.⁶ Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.
 - **Clarifications and improvements to assist firms and network firms better apply the conceptual framework** in relation to identifying, evaluating and addressing threats created by providing a NAS to an audit client. Highlights of such clarifications and improvements are included in Appendix 2 of this document.

The conceptual framework specifies the approach that all professional accountants, including auditors, are required to use to identify, evaluate and address threats to compliance with the fundamental principles and, where applicable, independence.
 - New application material to emphasize the need for firms and network to **consider the combined effect of threats created when multiple NAS are provided** to the same audit client.

⁴ The conceptual framework is set out in Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, Section 120, *The Conceptual Framework*.

⁵ International Independence Standards, Part 4A – Independence for Audits and Reviews, Section 600, *Provision of Non-assurance Services to an Audit Client*

⁶ See Part 4, Section 600, paragraph R600.7 and related provisions in paragraphs 600.7 A1 to R600.8.

8. The Code also includes **explicit prohibitions relating to the provision of certain types of NAS** in certain circumstances. In such circumstances, the IESBA has determined that the threats created by providing those NAS to audit clients cannot be eliminated or safeguards cannot be applied to reduce those threats to an acceptable level. A list of the prohibitions that apply when providing certain types of NAS to audit clients of entities that are PIEs is included in Appendix 1 of this document.
9. The approach used in developing the NAS provisions in the Code is based on the premise that it is impracticable for a global Code to cover an exhaustive list of the types of services that might be provided by a firm or network firm to its audit clients. This is because services are continually being created as business practices and financial markets evolve, and due to advancing technologies. Accordingly, the general provisions in the Code, in particular those set out in the conceptual framework also apply when a specific type of NAS is not explicitly dealt with in the Code.

III. General Policy Objective

10. NAS provisions at the jurisdictional level frequently include specific requirements to accommodate jurisdictional laws, regulations, norms and customs. These also range from principles-based to explicit rules-based provisions. As a result, there are a myriad of different approaches relating to NAS provisions at the jurisdictional level.
11. The IESBA believes that it is in the public interest that its NAS provisions are not only sufficiently robust but also principles-based in order that they remain relevant and applicable at the international level. In exploring an approach to assess the various NAS issues raised, the IESBA's objective is to take a leadership position in determining enhancements to global NAS provisions, where necessary in the public interest.
12. Against this background, the first step is to determine the overarching policy objective that the Code should seek to achieve. Questions have been raised about whether the Code should:
 - Include, to the extent possible, consistent NAS provisions that meet the objective and expectations of all stakeholders (a globally harmonized approach);or
 - Recognize that individual jurisdictional circumstances need to be accommodated, but that steps should be taken to enhance NAS provisions as appropriate in the public interest?In either circumstance, it will be important to ensure that the conceptual framework continues to provide a strong foundation to deal with NAS, including new and emerging services.
13. **Stakeholder engagement will play an important part** in the process of reconciling the differing views about the overarching policy objective. Informed by the feedback from its global roundtables, targeted outreach, and other related fact-finding, the IESBA will determine how best to respond to the issues relating to NAS. The NAS fact-finding will include a comparison of the NAS provisions in the Code (i.e., those intended for global applicability) to the national ethics and independence provisions that apply at the jurisdictional level.

IV. Summary of Specific Issues Identified by Stakeholders

14. Regardless of the overarching policy approach to be adopted, stakeholders have identified a number of specific NAS issues to be addressed. Those issues have been characterized in different and often interrelated ways, and will require a consideration of whether:

- Judgments about **materiality** should be a factor in determining whether a particular NAS is permissible.
- There is a need for different NAS provisions for different types of entities (e.g., **PIE and non-PIE provisions**).
- The Code should include additional **unconditional⁷ NAS prohibitions** (“i.e. additions to the current **black list** in the Code”).
- There is a need to develop additional guidance for **new and emerging types of services**.
- There needs to be improved **communication between auditors and those charged with governance (TCWG)**.
- Suggestions for **disclosure and other matters** should be addressed.

A. Materiality

15. With respect to PIEs, the Code allows for the provision of certain NAS that would otherwise be prohibited provided that the firm or network firm determines that such NAS are immaterial or not significant.⁸ For example, **the Code prohibits the provision of:**

- **Accounting and bookkeeping services**, including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements, except where they are of a routine and mechanical nature for divisions or related entities of an audit client that is a PIE if the personnel providing the services are not audit team members and:⁹
 - The divisions or related entities for which the service is provided are collectively **immaterial** to the financial statements on which the firm will express an opinion; or
 - The service relates to matters that are collectively **immaterial** to the financial statements of the division or related entity.
- **Valuation services**, including tax services involving valuation, that have a **material** effect on the financial statements on which the firm will express an opinion.
- **Internal audit services** relating to:
 - A **significant** part of internal control over financial reporting (ICFR);
 - Financial accounting systems that generate information that is, individually or in the aggregate, **material** to the client’s records; or

⁷ The term “**unconditional** NAS prohibitions” is used in this paper to refer situations in which a prohibition is not qualified by a specific circumstances or condition (e.g., materiality considerations or whether the audited entity is PIE).

⁸ See Appendix 1 for a list of the NAS prohibitions (“blacklist”) in the Code that apply to audits of PIEs.

⁹ See International Independence Standards, Part 4A, Section 600, paragraphs R601.5 to R601.7.

- Amounts or disclosures that are, individually or in the aggregate, **material** to the financial statements.
16. Some stakeholders, in particular those who suggested the need for a NAS black list (see subsection C below), have questioned the appropriateness of an approach that allows consideration of materiality and significance. Those stakeholders believe that allowing **consideration of materiality and significance** in determining permissibility **leads to inconsistencies** in how firms and network firms apply the NAS provisions in the Code. These stakeholders have suggested the need for an approach that is clearer and easier to enforce. For example:
- Some have suggested that the reference to materiality or significance in such circumstances **should be removed**.
 - Others have suggested that the IESBA **should provide additional guidance** to explain how the concepts of materiality and significance should be applied. In this regard, questions have been raised about whether the new application material relating to materiality in the Code provides sufficient additional guidance, or whether there is a need for other actions to ensure that professional accountants apply the concepts of materiality and significance in a consistent manner in the context of the Code.¹⁰

B. PIE and non-PIE Provisions

17. Some stakeholders have questioned the IESBA's rationale for having differential provisions for audits of entities that are PIEs versus non-PIEs. Those stakeholders believe **that no distinction should be drawn between the requirements in the Code for PIEs and non-PIEs** – i.e., that NAS provisions in the Code should be the same for all entities.
18. Others have suggested that IESBA should consider adopting a different approach to categorize the provisions in the Code. Those stakeholders (particularly SMPs) believe that greater consideration should be given to the specific circumstances of SMEs/SMP and suggested that the IESBA should instead establish provisions for audits of small- and medium-sized entities (SMEs) versus non-SMEs; or owner-managed enterprises (OMEs) versus non-OMEs.
19. Because most of the NAS issues identified to-date relate to audits of entities that are PIEs, as a first step, the IESBA is focusing on exploring the NAS issues that relate to audits of entities that are PIEs only. Consequently, those issues and suggestions relate to the variation in the provisions in the Code for PIEs and non-PIEs.

C. Unconditional NAS Prohibitions (“i.e. a Black List”)

20. As noted in Section II above, the Code includes an overarching prohibition on firms and network firms assuming management responsibilities when providing NAS to audit clients, as well as specific prohibitions regarding the provision of certain types of NAS either in all, or some circumstances, for example:
- When the outcome of the NAS is material or significant to the financial statements on which

¹⁰ Paragraph 600.5 A3 of the Code contains new application material relating to materiality in relation to an audit client's financial statements. This new application material explains that the determination of materiality involves the exercise of professional judgment; is impacted by both quantitative and qualitative factors; and is affected by perceptions of the financial information needs of users. The new application material also refers readers to relevant the IAASB standard that deals with materiality.

the firm will express an opinion (see subsection A above).

- Depending on whether the NAS is being provided to an audit client that is a PIE or a non-PIE (see subsection B above).

21. Some stakeholders believe that firms and network firms should not be permitted to provide certain NAS to audit clients in all circumstances, *inter alia* because of the issues summarized in paragraphs 15 to 19 above. They have suggested that the Code should include unconditional prohibitions in relation to the provision of certain NAS to audit clients, for example:

- Accounting and bookkeeping services such as preparing accounting records and financial statements, including those NAS of a routine or mechanical nature provided to divisions or related entities.
- Designing and implementing IT systems, internal control or risk management procedures.
- Services related to the audited entity's internal audit function.
- Services linked to the audited entity's financing, capital structure and allocation, and investment strategy.
- Litigation support services for PIEs when it is used for the purpose of advancing the entity's interest in a legal proceeding or investigation with respect to amounts that are material to the financial statements subject to audit or review.
- Valuation services, including tax services involving valuation.
- Certain types of tax services.

D. New and Emerging Services

22. Advancing technologies and new business models give rise to new NAS that are not dealt with in the Code and may not also be addressed in national ethics and independence provisions. These new NAS include, for example, cyber-security services, cloud computing advisory services and initial coin offerings.
23. The Code includes general provisions, including the enhanced conceptual framework and general NAS provisions, to assist firms evaluate and address threats created by the provision of NAS that are not explicitly dealt with in the Code.
24. Some stakeholders have suggested that the IESBA should consider establishing new provisions in the Code to deal with the ethics and independence implications of providing these new types of NAS in a more explicit manner.

E. Auditor Communication with TCWG

25. Effective oversight by TCWG, including audit committees contribute to supporting audit quality and increasing market confidence in the quality of information in financial reporting. The IAASB's International Standards require auditor communication about certain ethics and independence matters in the case of listed entities.¹¹ The Code states that "even when not required by the Code,

¹¹ Paragraph 17 of ISA 260, *Communication with Those Charged with Governance* requires that in the case of listed entities, the auditor communicate with TCWG about ethics and independence matters in relation to the engagement team and others in the firm and network firm as appropriate. This communication is required to include a statement about:

- (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence, including **total fees charged during the period covered by the**

applicable professional standards, laws or regulations, regular communication is encouraged between a firm and TCWG regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence.¹² It does not repeat the provisions that are included in the IAASB's standards.

26. Some stakeholders have questioned whether:

- The Code should, at minimum, reflect the provisions relating to auditor communications with TCWG about independence and NAS specific matters that are established in the IAASB's International Standards.
- Auditor communications with TCWG should be limited to audits of listed entities only, as is the case in the IAASB's International Standards, or whether there is merit to exploring extending the applicability of those provisions to either audits of entities that are PIEs, or to all entities.

27. A few stakeholders have suggested that the IESBA should consider establishing provisions dealing with the communication or approval of the NAS to be performed; as well as the fees charged by the audit firm for providing the NAS – an approach that already exists in some jurisdictions. More broadly, questions have been raised about whether TCWG, for example audit committee members are in need of more guidance or best practices to promote and support audit quality.¹³

F. Disclosure and Other Matters

28. Some stakeholders believe that the Code should:

- Include more robust disclosure requirements about the nature of NAS that are provided to audit clients and the related fees charged.
- Establish fee caps in relation to NAS in order to address the issue of independence in appearance. Those stakeholders pointed out that fee cap restrictions are already established in certain jurisdictions (e.g. the European Union and South Africa).

29. Also, questions have been raised about whether the IESBA has a role to play in responding to broader concerns about audit quality and auditor independence that might arise from the multi-

financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist TCWG in assessing the effect of services on the independence of the auditor; and

- (ii) The **related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.**

¹² See Part 4A, Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*, paragraphs 400.40 A1 to 400.40 A2. The Code also notes that such auditor communication with TCWG enables TCWG to:

- (a) Consider the firm's judgments in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
- (c) Take appropriate action.

Further, the Code notes that communication with TCWG about the above matter can be particularly helpful with respect to intimidation and familiarity threats.

¹³ For example, see the International Organization of Securities Commissions (IOSCO) [Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality](#) that was released in April 2018.

disciplinary consulting and advisory services provided by firms and network firms (i.e., issues relating to the firm business model). This IESBA initiative on NAS is not intended to deal with issues or concerns relating to firms' provision of such services to non-audit clients ("firms' business model"). This particular issue is not within the scope of this NAS initiative.

V. Questions for Roundtable Participants

30. The IESBA's global roundtables as well as its meetings with key stakeholders, such as national standards setters, firms and regulators will provide important perspectives about each of the NAS issues identified in this paper.
31. At the roundtables, participants will be asked to share their views and rationale in relation to the following questions:

General Policy Objective

1. Should the IESBA's approach to the development of the Code be to:
 - (a) Include, to the extent possible, consistent NAS provisions that meet the objective and expectations of all stakeholders (a globally harmonized approach)?
 - or
 - (b) Recognize that individual jurisdictional circumstances need to be accommodated, but that steps should be taken to enhance NAS provisions as appropriate in the public interest?

Is there another approach that the IESBA should explore?

Materiality

2. Should materiality or significance be considered when determining whether the Code should permit a firm or network firm to provide a NAS to an audit client? If the reference to materiality and significance is retained in the NAS prohibitions in the Code (see Appendix 1), should the IESBA provide additional guidance to enhance the consistent application of the NAS provisions in the Code?

PIE and Non-PIE Provisions

3. In an audit context, is there merit to having the same global ethics and independence provisions for all entities, irrespective of their nature and size?
4. Should the NAS provisions for audits of entities that are PIEs and non-PIEs be different? What changes, if any, are required in the Code to acknowledge the unique information needs of users of audited financial statements of entities that are PIEs versus those of other entities?

Unconditional NAS Prohibitions (i.e., a Black List)

5. What criteria should be used to determine whether a NAS should be prohibited? If so, which service(s) should be covered, and should those prohibitions apply to all audit clients?
6. In view of issues relating to materiality and PIEs and non-PIEs, are there types of NAS that should be unconditionally prohibited in the Code for audits of entities that are PIEs (see Appendix 1 to this paper for a listing of current NAS prohibitions in the Code that apply to PIEs)?

New and Emerging Services

7. Are there specific types of services, including new or emerging services, that should be dealt with explicitly if not already addressed in the Code? If yes, please identify which NAS and indicate the nature of the additional guidance that would be required.

Communication between Auditors and TCWG

8. What additional requirements, if any, relating to auditor communication with TCWG should be included in the Code? For example:
 - (a) Should the requirement in ISA 260 relating to the provisions provision of NAS in the context of compliance with ethics and independence requirements be reflected in the Code?
 - (b) Should the Code include requirements and application material to deal with the circumstances warranting approval by TCWG for the provision of NAS, including the level of fees involved to audit clients?

Disclosure and Other Matters

9. What disclosure requirements about NAS, if any, should be included in the Code?
10. Should the Code establish fee restrictions in relation to NAS (e.g., fee caps)? What factors, if any, should be considered?
11. What actions, if any, should be taken by IESBA in response to the broader concerns about audit quality and auditor independence that might arise from the multi-disciplinary consulting and advisory services provided by firms and network firms (i.e., issues relating to the firm business model)? What role should others play?

Extract of NAS Prohibitions in the Code for Public Interest Entities

As discussed in Section II, subsection C of this paper, the Code includes an overarching requirement that **prohibit firms and network firms from assuming management responsibilities** when providing NAS to audit clients; and **specific requirements to prohibit certain types of NAS** either in all circumstances; or in certain circumstances. The specific NAS provisions in the Code relate to the following types of NAS:

- Accounting and bookkeeping services.
- Administrative services.
- Valuation services.
- Tax services, including activities such as
 - Tax return preparation.
 - Tax calculations for the purpose of preparing the accounting entries.
 - Tax planning and other tax advisory services.
 - Tax services involving valuations.
 - Assistance in the resolution of tax disputes.
- Internal audit services.
- Information technology (IT) systems services.
- Litigation support services.
- Legal services.
- Recruiting services.
- Corporate finance services.

This Appendix lists the NAS prohibitions that apply to audit clients of entities that are PIEs.¹⁴

1. *Accounting and bookkeeping services, including preparing financial statements.* The Code includes an exception to this prohibition for accounting and bookkeeping services that is of routine and mechanical nature for divisions and related entities if the divisions and the service are **immaterial** (see paragraphs R601.6 and R601.7).
2. *Valuations services, including tax services involving valuation* that have a **material** effect on the financial statements on which the firm will express an opinion (see paragraph R603.5).
3. *Preparing tax calculations of current and deferred tax liabilities (or assets)* for the purpose of

¹⁴ The requirements and application material that apply when providing NAS to audit clients is set out Sections 600, the full text of which is available at the IESBA's [website](#).

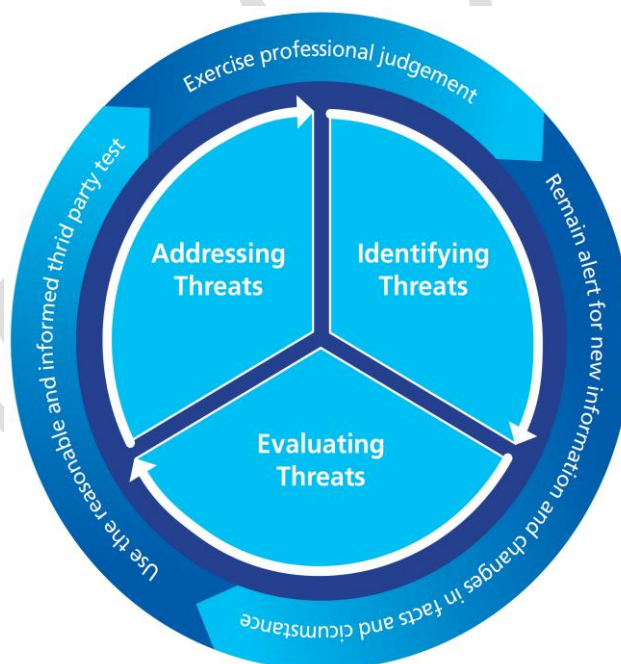
preparing accounting entries that are **material** (see paragraph R604.6).

4. *Tax planning and other tax advisory services* when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements, and audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation and the outcome of the tax advice is **material** (see paragraph R604.8).
5. *Tax services that involve assisting in the resolution of tax disputes* if the services involve acting as an advocate for the audit client before a public tribunal or court, and the amounts involved are **material** (see paragraph R604.11).
6. *Internal audit services* relating to (see paragraph R605.5):
 - (a) A **significant** part of the ICFR;
 - (b) Financial accounting systems that generate information that is, individually or in the aggregate, **material** to the client's records; or
 - (c) Amounts or disclosures that are, individually or in the aggregate, **material** to the financial statements.
7. *Information technology (IT) system services involving designing or implementing IT* that form a significant part of the ICFR or generate information that is, individually or in the aggregate, **significant** to the client's records (see paragraph R606.5).
8. *Legal services that involve acting as General Counsel for legal affairs, and acting in an advocacy roles* for an audit client in resolving a dispute or litigation when the amounts involved are **material** (see paragraphs R608.5 and R608.6).
9. *Recruiting services that involve acting as a negotiator* on the client's behalf (see paragraph R609.6).
10. *Recruiting services relating to searching for or seeking out candidates; or undertaking reference checks of prospective candidates*, with respect to (see paragraph R609.7):
 - (a) A director or officer of the entity; or
 - (b) A member of senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.
11. *Corporate finance services that involve promoting, dealing in, or underwriting the audit client's shares* (see paragraph R610.4)
12. *Corporate financial advice* where the effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements and the audit team has reasonable doubt as to appropriateness; and the outcome or consequences of the advice will have a **material** effect on the financial statements (see paragraph R610.5).

Improvements to Assist in the Application of the Conceptual Framework in Relation to the Provision of NAS to Audit Clients

This Appendix summarizes the **improvements that were made to the Code** in relation to the application of the conceptual framework in the context of providing NAS to audit clients.¹⁵

1. **The Code includes new and revised provisions to assist firms and network firms apply the provisions in the conceptual framework in a consistent manner.** The conceptual framework specifies the approach that **all professional accountants are required to apply to identify, evaluate and address threats to compliance with the fundamental principles and, where applicable, be independent.**
2. The following are highlights of the revisions made to assist firms and network firms better apply the conceptual framework when identifying, evaluating and addressing threats that might be created when providing NAS to audit clients.
 - **New application material for evaluating threats, including a list of examples of factors that firms and network firms might consider** in doing this evaluation (see paragraph 600.5 A1). Those factors include:
 - The nature, scope and purpose of the service.
 - The **degree of reliance that will be placed on the outcome of the service as part of the audit.**
 - The legal and regulatory environment in which the service is provided.
 - **Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion, and, if so:**
 - The **extent to which the outcome of the service will have a material effect¹⁶** on the financial statements.



¹⁵ The requirements and application material that apply when providing NAS to audit clients is set out Sections 600, the full text of which is available at the IESBA's [website](#).

¹⁶ Drawing from the IAASB's auditing standards, the Code also includes new application material to explain materiality in relation to an audit client's financial statements. Refer to Section IV of this document for a further discussion on materiality.

- The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The **level of expertise of the client's management and employees** with respect to the type of NAS provided.
- The **extent of the client's involvement in determining** significant matters of judgment.
- The **nature and extent of the impact of the service**, if any, on the systems that generate information that forms a significant part of the client's:
 - Accounting records or financial statements on which the firm will express an opinion.
 - Internal controls over financial reporting.
- Whether the client is a public interest entity. For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of a threat.
- **New and revised requirement and application material for addressing threats:**
 - Clarification that threats are addressed either by:
 1. **Eliminating the circumstance**, interest or relationship creating the threat;
 2. **Applying safeguards**, where available and capable of being applied to reduce the threat(s) to an acceptable level;¹⁷ or
 3. **Declining or ending the specific professional service**.
 - **Clarification that there are some situations in which safeguards might not be available or capable of reducing threats** created by providing a NAS to an acceptable level. In such situations, the firm or network is required to decline or end the NAS or the audit engagement.
 - **Revised description of safeguards** that clarify that they are actions that individually or in combination *effectively* reduce the threats to independence that have been identified to an acceptable level [emphasis added].
 - **Clearer examples of safeguards** that are aligned more closely to the specific type of threats that they are intended to respond to.
- **New application material relating to materiality in relation to an audit client's financial statements** explain that the determination of materiality involves the exercise of professional judgment, and is impacted by both quantitative and qualitative factors, and is affected by perceptions of the financial information needs of users.¹⁸
- **Clearer guidance for dealing with advocacy threats**, including:

¹⁷ Paragraph 120.7 A1 of the Code defines an **acceptable level** as "the level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant has complied with the fundamental principles."

¹⁸ There have been calls for the IESBA to include more guidance to explain the concept of materiality and significance in a broader context, for example in relation to financial interests. Considerations of these broader materiality issues will be explored as part of a separate initiative.

- **Clarifications about how to evaluate and address advocacy threats** that are created when providing certain NAS – i.e., valuation, tax, litigation support, legal and corporate finance services.
- **Increased emphasis on the fact that assuming a management responsibility creates advocacy threats, in addition to familiarity threats** because the firm or network firm becomes too closely aligned with the views and interests of management.

Draft - for NAS

Draft - for NSS

IESBA

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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 8.1

Meeting date: 6 June 2018

Subject: IESBA Strategy and Work Plan

Date: 14 May 2018

Prepared by: Sharon Walker

<input checked="" type="checkbox"/>	Action Required	<input type="checkbox"/>	For Information Purposes Only
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Objectives

1. The objective of this agenda item is APPROVE the draft response to the IESBA Consultation Paper, *Proposed Strategy and Work Plan 2019-2023*.

Background

2. The IESBA is seeking feedback into the proposed strategy and work plan 2019-2023 by 16 July 2018.
3. We have prepared a draft response for the Board's consideration, feedback and approval.

Action requested

4. The NZAuASB is asked to APPROVE the draft response to the IESBA Consultation Paper.

Material Presented

8.1	Board meeting summary paper
8.2	NZAuASB Draft submission to IESBA
8.3	IESBA Consultation Paper, <i>Proposed Strategy and Work Plan, 2019-2023</i>

[Date]

Mr Ken Siong
Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue
New York, NY 10017
USA

Dear Ken,

IESBA Consultation Paper, Proposed Strategy and Work Plan, 2019-2023.

Thank you for the opportunity to comment on the IESBA Proposed Strategy and Work Plan 2019-2023. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) in the attachment.

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance 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 for assurance practitioners.

The NZAuASB'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.

The NZAuASB notes and supports the IESBA's vision for the Code to be a foundation of strong ethical principles, values and standards to underpin trust on the global accountancy profession in a dynamic and uncertain world, and to enable the profession to act in the public interest. The NZAuASB applauds the IESBA's continued efforts in its outreach and communication activities to raise awareness of the restructured Code and the substantive improvements it contains and encourage its adoption globally.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk (sylvia.vandyk@xrb.govt.nz).

Yours sincerely,

Robert Buchanan
Chairman – New Zealand Auditing and Assurance Standards Board

Email: robert@buchananlaw.co.nz

Submission of the New Zealand Auditing and Assurance Standards Board

IESBA Consultation paper: *Proposed Strategy and Work Plan, 2019-2023*

I Schedule of Responses to the IESBA's Specific Questions

1. Do you agree with the proposed criteria for the IESBA to determine its actions and priorities over the strategy period?

Response:

The NZAuASB considers the criteria for determining actions and priorities to be appropriate.

2. Do you support the actions that have been identified with respect to each strategic theme? If not, please explain why.

Response:

The NZAuASB is particularly interested in and strongly supportive of the work streams that impact on assurance engagements and in particular the definitions of public interest entity (PIE) and listed entity. The NZAuASB believes there is merit in the IESBA undertaking work to gain a comparative understanding of the global impact of the definitions of public interest entity and listed entity across different jurisdictions. For example, how the definition applies in the public sector as well as its application to significant public interest entities, such as banks and insurers, that are not listed entities, and other entities that raise money from the public.

3. Recognizing that this proposed SWP is ambitious, do you believe the IESBA should accelerate or defer any particular work stream(s)? If so, please explain why.

Response:

The NZAuASB considers the documentation work stream to be a priority that should be accelerated. Often the only evidence of the practitioner's consideration of an ethical matter is its documentation. Areas that may benefit from further discussion are documentation of the assurance practitioner's consideration of threats to independence, including the application of professional judgement and ethical conflict resolution. From a regulator perspective, inadequate documentation on how independence is considered and met is a key issue.

4. Do you have comments on any other matters addressed in this consultation paper or any significant matters not covered in this consultation paper that you believe the IESBA should address?

Response:

The NZAuASB does not have any other comments for the IESBA to consider.

ELEVATING ETHICS IN A DYNAMIC AND UNCERTAIN WORLD



PROPOSED STRATEGY AND WORK PLAN, 2019-2023

IESBA

International
Ethics Standards
Board for Accountants

REQUEST FOR COMMENTS

This Consultation Paper, *Proposed Strategy and Work Plan, 2019-2023*, was developed and approved by the International Ethics Standards Board for Accountants (IESBA).

The proposals in this Consultation Paper may be modified in light of comments received before being issued in final form. **Comments are requested by July 16, 2018.**

Respondents are asked to submit their comments electronically through the IESBA website, using the **"Submit a Comment"** link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Senior Technical Director at kensiong@ethicsboard.org.

This publication may be downloaded from the IESBA website: www.ethicsboard.org. The approved text is published in the English language.

A circular orange button with a grey drop shadow, containing the text "SUBMIT A COMMENT" in white capital letters.

SUBMIT A
COMMENT

The IESBA logo, consisting of the letters "IESBA" in white serif font on a blue rectangular background.

IESBA

International
Ethics Standards
Board for Accountants

FOREWORD

The IESBA has come to the milestone of decision about its Strategy and Work Plan (SWP) for the period 2019-23. I am pleased to introduce our proposed SWP, representing a culmination of the Board's intense and open reflections on early broad-based stakeholder input.

Our new plan will be greatly advantaged by the clarity and robustness of the restructured *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code), adopted unanimously at the end of last year. The ambition is to underwrite projects and activities that will fulfill distinct but broad goals: relevance and applicability in a world of changing technologies, business methods and public expectations; and strengthening both public interest objectives and trust in the accountancy profession as an integral whole. We are very aware that Ethics and Fundamental Principles will gain ever-increasing importance in the future. Accordingly, the Code must be 'future ready'.



Dr. Stavros Thomadakis, IESBA Chairman

We seek balance in the nature and scope of projects. We recognize that some new requirements or application material should be brought quickly to market to respond to changing circumstances and expectations. We also believe that principles-based ethics standards must be sustainable long-term constructs. Our SWP contemplates therefore a mix of innovative projects that are resource-intensive and require time to examine, to consult with stakeholders and to bridge varied viewpoints; and a number of more narrowly scoped projects targeted to technical matters and capable of swift completion. This requires careful decisions on priorities and trade-offs. The SWP looks to optimize our available plenary, volunteer and staff time, as well as other available resources.

The proposals for reform that the Monitoring Group is contemplating should not be allowed to become an uncertainty factor in our strategic work. On the contrary, by pursuing the present exercise and articulating strategic goals, we can offer a concrete and feasible path of progress

in the setting of quality standards that is mindful of Monitoring Group and other stakeholder concerns. Charting a stable course to fulfill global public interest objectives is crucial for the confidence of our stakeholders in the relevance and impact of global standards of Ethics.

Expectations and demands on our work have never been higher. This is welcomed. It is a testament to confidence that our work can make a difference. Our strategy formulation, therefore, is a critical exercise. It charts the path to fulfilling our vision for the Code.

For our stakeholders, this is the opportunity to ensure we hear what matters to you, your expectations of us, and to contribute to our shared goals of enhancing public trust. Your views are very welcome!

INTRODUCTION

- 1 This consultation paper seeks views from all stakeholders on the IESBA's proposed strategy for 2019-2023, and the proposed actions and priorities (work plan) to implement the strategy. The IESBA invites comments on any aspect of its proposed strategy and work plan (SWP).
- 2 This Consultation Paper sets out the following:
 - I. **Vision for the Code and Strategic Themes** – The IESBA's vision for the Code and the strategic themes that will guide its actions in pursuit of this vision over the strategy period.
 - II. **Key Considerations Guiding the Establishment of the Work Plan** – The criteria and key factors that affect the determination of potential actions in the strategy period and the relative priorities of those actions and their timing.
 - III. **Managing Delivery of the Strategy and Work Plan 2019-2023** – How the IESBA expects to manage delivery of the SWP within its given capacity and resources.
 - IV. **Proposed Actions, Priorities and Timing** – Identified actions, priorities and timing aligned to the strategic themes.



I. VISION FOR THE CODE AND STRATEGIC THEMES

The IESBA's vision is for the Code to be a foundation of strong ethical principles, values and standards to underpin trust in the global accountancy profession in a dynamic and uncertain world, and to enable the profession to act in the public interest.

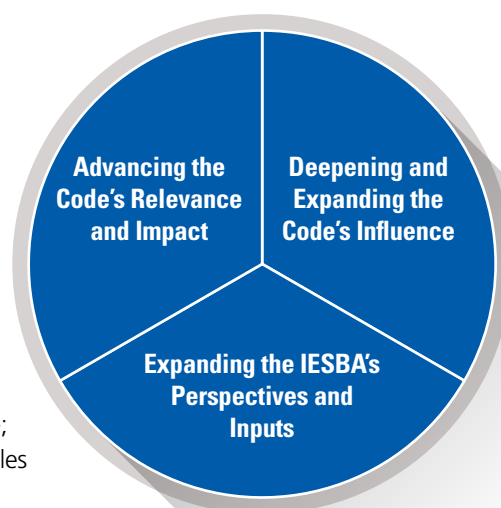
3 The IESBA's pursuit of this vision during the period 2019-2023 will be supported and guided by the following three strategic themes:

- **Advancing the Code's Relevance and Impact**, through (i) maintaining a global Code fit for purpose in the evolving environment; and (ii) further raising the bar on ethics;
- **Deepening and Expanding the Code's Influence**, through increasing global adoption and effective implementation of the Code; and
- **Expanding the IESBA's Perspectives and Inputs**, through proactively engaging and seeking cooperative avenues with stakeholders.

4 Each of the strategic themes is discussed below. In addition, the IESBA will continue to vigorously promote the fundamental principles and the conceptual framework which are the stable pillars underpinning the Code.

5 The IESBA intends its SWP to be dynamic. New developments may call for a reconsideration of the strategic themes or related actions and priorities to ensure that the IESBA's work is relevant and responsive to the public interest. Accordingly, the IESBA is committed to actively monitoring emerging developments that may require adjustments to its SWP.

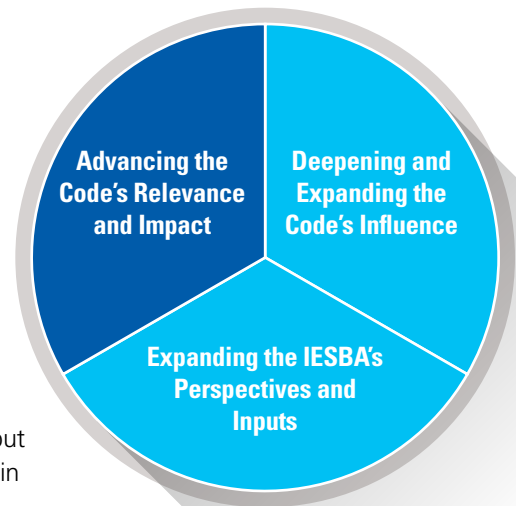
6 The IESBA has prioritized a balance of longer-term and shorter-term initiatives or projects that best support the strategic themes. Nevertheless, it recognizes that the nature of the deliverables will depend on the nature of the topics as well as the scoping of the issues or project definitions. Some outputs may result in changes to the Code; others may take the form of IESBA Staff publications or other deliverables the IESBA may determine appropriate.



Advancing the Code's Relevance and Impact

MAINTAINING A GLOBAL CODE FIT FOR PURPOSE IN THE EVOLVING ENVIRONMENT

- 7 Digital technologies have been rapidly transforming the landscape and ways in which companies and organizations operate. Big data and data analytics, emergent artificial intelligence, robotics, blockchain, cloud computing, mobile computing, social networks and new digital payment platforms, among others, are becoming more mainstream. They also are highly interconnected. Such technologies enable companies and organizations to achieve economies of scale, competitive advantage through innovation and reinvention, global reach and faster time to market. These trends and developments are impacting the roles and responsibilities of PAs in a major way throughout the financial reporting supply chain. They create opportunities and challenges not only for accountancy firms ("firms") and individual PAs in serving their clients or employing organizations, but also for the Code in remaining relevant as a foundation of public trust in the work of firms and individual PAs.
- 8 These trends and developments directly impact the Code in two overarching respects:
 - (a) The continuing robustness of the fundamental principles and the relevance and appropriateness of key concepts and terms in the Code; and
 - (b) The ethical implications of changing modes and patterns of business and work caused by technological disruptions and innovation.
- 9 The IESBA therefore intends to study the implications of these major trends and developments, and take any standard-setting action that may be appropriate to ensure that the Code remains fit for purpose. The desired outcome is for the Code to continue to provide a trusted ethical compass to firms and PAs as they upgrade their skills and adapt their services and activities in today's technological age.
- 10 More broadly, the IESBA will also continue to examine the ethical implications of any regulatory developments internationally and any major shifts in public expectations or trends in areas of economic activity that rely on the services of PAs.



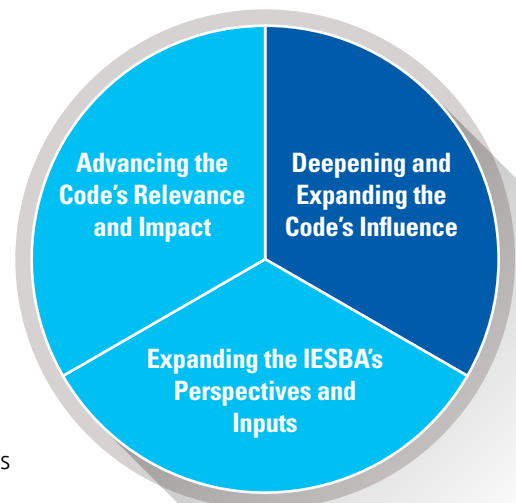
FURTHER RAISING THE BAR ON ETHICS

- 11 Setting high-quality ethics standards for both PAs in public practice (including auditors) (PAPPs) and PAs in business (PAIBs) is the essence of the IESBA's role in the public interest. The IESBA believes that the recent revision and restructuring of the Code have indeed significantly strengthened the Code.
- 12 However, the IESBA is also cognizant that new questions or issues may arise in the fluid, dynamic external environment that might reveal potential gaps in the Code or areas in need of further strengthening. Already, in response to stakeholder feedback and input from the PIOB, the IESBA has launched initiatives to study whether there is a public interest need to further develop or strengthen the Code to address the topics of (i) professional skepticism, (ii) the provision of non-assurance services (NAS) to audit clients, and (iii) fees charged by audit firms (see Appendix 1 for further details).

- 13 In addition, in the context of auditor independence, the IESBA believes now is the time to review the adequacy of the definition of a public interest entity (PIE) in the Code given regulatory developments in this area in some major jurisdictions as well as calls from some regulatory stakeholders regarding whether the extant definition continues to be fit for purpose. Equally, developments in capital markets around the world and how they are regulated have raised questions about the clarity of the definition of a listed entity in the Code.
- 14 Questions have also been raised by some within the regulatory community regarding whether the concept of materiality in the Code is sufficiently clear as it applies to areas such as business relationships and financial interests.
- 15 Further, as societal expectations evolve, there have been public concerns about perceptions of some entities employing “aggressive tax avoidance” strategies, and whether such strategies are ethically justifiable. The questions that have been raised have implications for both PAPPs and PAIBs in relation to the advice or support they provide to their clients or employing organizations in the area of tax planning and related services.
- 16 These are specific areas that the IESBA will seek to study to determine whether standard-setting or other action is warranted to further raise the bar on ethics.

Deepening and Expanding the Code’s Influence

- 17 Globally recognized and accepted ethics standards serve the public interest because they establish a universal baseline for PAs around the world regarding the ethical conduct expected of them vis-à-vis their clients and employing organizations. Further, global independence standards provide for a consistent understanding among investors, public authorities and others as to what it means for an auditor to be independent, thereby leading to increased public trust in auditors’ reports.
- 18 To date, the Code has been adopted or is used as a basis for national ethics standards or the ethical codes of professional accountancy organizations in over 120 jurisdictions around the world, including 16 among the G-20. In addition, the 27 largest networks of firms around the world that comprise the **Forum of Firms** have aligned their policies and methodologies to conform to the Code for transnational audits. These statistics are a strong endorsement for the Code and its principles-based approach. However, with the finalization of the restructuring and substantive revision of the Code at the end of 2017, the IESBA sees a clear imperative to deepen and expand the Code’s influence by vigorously promoting global adoption of the revised and restructured Code (or simply the “restructured Code”).
- 19 In this regard, the IESBA will prioritize major outreach and communication activities to raise awareness of the restructured Code and the substantive improvements it contains.¹ The IESBA is aware that many jurisdictions have been progressing towards adoption at different speeds for a



¹ For details about when the restructured Code (including substantive improvements) becomes effective, see <http://www.ethicsboard.org/restructured-code>.

number of reasons. These include not only issues of capacity and fragmented responsibilities for ethics standards at the national level, but also clear concerns among stakeholders regarding the understandability, translatability, ease of use and enforceability of the extant Code. The IESBA believes that the restructured Code responds comprehensively to these concerns. Accordingly, it is in the public interest that jurisdictions adopt the restructured Code at the earliest opportunity.

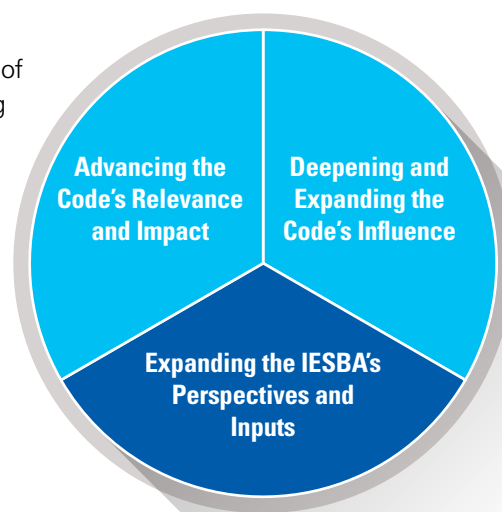
- 20 To this end, the IESBA will pursue close engagement with the IFAC [Compliance Advisory Panel](#) regarding adoption of the restructured Code by IFAC member organizations. The IESBA will also seek endorsement of the restructured Code by national and international regulatory organizations.
- 21 Further, the IESBA will consider how best to leverage developments in digital technology to achieve wider reach, greater visibility, and easier use and access for the Code. In this regard, the IESBA envisions an e-Code with enhanced functionality that will provide ready access and guidance to firms and PAs in addressing the ethical questions or challenges they may face.
- 22 In addition, the IESBA will dedicate efforts to facilitate effective implementation of the restructured Code, recognizing that it contains major improvements in areas such as non-compliance with laws and regulations (NOCLAR), the conceptual framework and safeguards, long association, inducements and pressure to breach the fundamental principles.
- 23 While the IESBA believes that it will have substantively addressed stakeholders' concerns about the clarity and enforceability of the Code through the restructuring project,² it will monitor the effective implementation of the restructured Code. It will be important for the IESBA to hear about any implementation challenges in this regard. The IESBA also envisions a post-implementation review towards the latter part of the strategy period to determine whether the objectives of the restructuring project have been met.

Expanding the IESBA's Perspectives and Inputs

- 24 The development of high-quality ethics standards benefits immensely from the input of the IESBA's wide range of stakeholders globally. To ensure that the Code continues to be, and be seen to be, a world class Code for the accountancy profession globally, the IESBA will proactively engage with its stakeholders and seek cooperative avenues with them.
- 25 A major axis of cooperation will be with the International Auditing and Assurance Standards Board (IAASB). The IESBA and IAASB have agreed to a set of principles and related criteria to guide their interactions on matters of common interest going forward. The two boards have also begun a practice of meeting together annually to discuss matters of mutual relevance, in addition to more regular interactions at the staff, task force or working group, and leadership levels. This enhanced level of strategic and technical coordination is necessary because of the increasing extent to which the standards of both boards need to be coordinated on common or overlapping topics or areas, and because many jurisdictions adopt both boards' standards.

² The IESBA completed the Structure of the Code project in December 2017.

- 26 The IESBA will also seek cooperative avenues with the International Accounting Education Standards Board (IAESB). As there may be areas of overlap on specific topics that both the IESBA and IAESB are addressing within their respective SWPs, it is in the public interest that the two boards seek to coordinate their work as closely as possible.
- 27 The IESBA will also continue to prioritize close engagement with its National Standard Setters (NSS) liaison group³ and seek opportunities for cooperation or collaboration on topics or initiatives of mutual interest. More broadly, the IESBA will pursue proactive engagement and closer working relationships with other stakeholder groups, including regulators and audit oversight bodies, investors and those charged with governance, firms and IFAC member bodies.
- 28 Recognizing that PAIBs represent a large proportion of the profession in many jurisdictions, the IESBA will dedicate a specific focus on engaging closely with the IFAC PAIB Committee as a global representative group for this important constituency. At the same time, the IESBA believes that it is important to take into account the particular perspectives of the small and medium practice (SMP)/small- and medium-sized entity (SME) constituency when it sets standards. It therefore envisions continued close liaison with the IFAC SMP Committee, recognizing the need to balance the burden of change to the Code and the likely benefit to the public interest.
- 29 The IESBA also recognizes the importance of evidence-based standard setting, i.e., basing standard-setting activities on appropriate research and evidence of issues to be addressed. The academic and audit oversight communities can play valuable roles in this regard through their research and audit inspection activities, respectively. Such activities may yield empirical evidence as input to the IESBA's consideration of future standard-setting initiatives. Already, the IESBA has benefited from **input** from an academic in connection with fact finding regarding its Fees initiative, and engaged in discussions with the audit oversight community regarding how best to leverage its inspection work. The IESBA anticipates further strengthening its relationship with both stakeholder groups in the medium term.



³ The IESBA-NSS liaison group comprises NSS from Australia, Brazil, Canada, China (mainland), France, Germany, Hong Kong SAR, India, Japan, the Netherlands, New Zealand, Russian Federation, South Africa, UK and USA.

II. KEY CONSIDERATIONS GUIDING THE ESTABLISHMENT OF THE WORK PLAN

CRITERIA FOR DETERMINING ACTIONS AND PRIORITIES

- 30 The IESBA's determination of standard-setting or other actions to add to its Work Plan 2019-2023 and their priorities under the three strategic themes described above depends on a number of criteria. These include:
- The benefits to the public interest of undertaking the particular action, including the extent to which the action will:
 - Further enhance public trust in the Code and the global accountancy profession.
 - Further raise the bar on ethics by supporting public interest outcomes, including compliance with the fundamental principles, strengthened auditor independence, increased global adoption and more effective implementation of the Code.
 - The pervasiveness of the matter in terms of the extent to which it impacts the global profession.
 - The degree of urgency in addressing it, and the potential implications for the public interest if action is not taken or is delayed.
 - The global relevance of the particular matter.
 - The feasibility of undertaking the action within a realistic timeframe.

FACTORS THAT AFFECT TIMELINES WITHIN THE WORK PLAN

- 31 Various factors affect the timelines of new actions within the work plan, including:
- The nature, complexity and definition of the scope of the particular matter being addressed.
 - Whether prior fact finding or consultation with stakeholders is needed to establish a basis for standard setting.
 - Board and agenda capacity (see Managing Delivery of SWP 2019-2023 below).
 - The need for coordination with other standard-setting boards, in particular the IAASB and IAESB.
- 32 The need to adhere to due process is also a factor that influences the duration of projects. Projects may take from 12-36 months to complete, depending on their nature, scope and complexity, and the need for research and stakeholder consultation prior to issuance of an exposure draft.

QUESTION

Q

1. Do you agree with the proposed criteria for the IESBA to determine its actions and priorities over the strategy period?



III. MANAGING DELIVERY OF THE STRATEGY AND WORK PLAN 2019-2023

- 33 The proposed SWP is ambitious, and draws on the full capacity of the IESBA to deliver high-quality standards in a timely manner. The IESBA's current capacity includes:
- Plenary board meeting capacity of 12-15 days per annum.
 - A remunerated independent Chair and seventeen volunteer members, with each volunteer member committing approximately 325 – 570 hours annually (excluding travel) to his or her work on the Board. Most Board members in turn are supported by technical advisors.
 - An experienced full-time technical team of seven staff and administrative team of two staff, with administrative structures and processes supported by IFAC.
 - An annual operating budget that supports staffing, meeting, travel and other direct costs necessary for the IESBA to execute its strategy and carry out its work plan.
- 34 Managing delivery of the SWP within resources and with due consideration of the external context in which the IESBA operates is a priority of IESBA leadership. Key focus areas include:
- The independence and reputation of the IESBA, and the quality of the Code and its global acceptance—managed through:
 - A steadfast commitment to developing high-quality standards in the public interest;
 - A close and proactive dialogue with the PIOB and the IESBA CAG, including responsiveness to their advice, observations and recommendations;
 - Fully transparent standard-setting activities, adherence to due process including broad public consultation on all proposed standards, and a focus on responsiveness to public feedback;
 - Ongoing commitment to ensuring both the quality and timeliness of delivery of new standards. This includes developing high-quality principles-based standards that are globally operable; and
 - A robust and broad-based stakeholder outreach program, to understand stakeholder interests and needs.
 - Capacity at the leadership, volunteer and staff levels—managed through:
 - Optimizing Board plenary time, focusing debates on strategic issues while also addressing technical matters, and continuous improvement of effective and issues-focused material;
 - Use of task forces and working groups and, where appropriate, expert advisory groups to aid in standards development work;

- Appointment through the independent nominations process of a diverse mix of Board members, with the requisite skills, experience, resources and capacity to contribute to the projects on the work plan;
- Attracting, developing and retaining diverse, knowledgeable and highly qualified staff;
- Reconsidering capacity and skills needed in the light of strategic priorities; and
- Collaborating with national and other international standard-setting boards and leveraging their work and resources, including staff support when possible.
- Operational effectiveness and stability—managed through:
 - Periodic assessments of Board effectiveness;
 - Leveraging technological tools and resources to enhance efficiency and effectiveness at the staff level; and
 - Using Board, Staff and other resources in a focused and effective manner.
- Robust outreach and communication with stakeholders—managed through:
 - An extensive Chair, member and staff outreach program;
 - Fora such as the IESBA CAG and IESBA-NSS meetings and, where appropriate, global roundtables to discuss developments or issues of international relevance; and
 - Proactive coordination with other international standard setters, particularly the IAASB and IAESB.
 - Development and release of supporting communication material such as podcasts, video Q&As, fact sheets, At-a-Glance documents, and Q&A publications.

35

The IESBA will continue to monitor external developments and evaluate how changes may impact its approach to delivery of its SWP. This includes monitoring the growth of demands on the Board as adoption of the Code increases further.



IV. PROPOSED ACTIONS, PRIORITIES AND TIMING

- 36 This section provides an overview of proposed actions and related priorities and timing that the IESBA believes would best serve to fulfill its vision for the Code in the period 2019-2023, guided by the three strategic themes identified above, and taking into account the survey feedback received from stakeholders. Prerequisites to the IESBA starting a standard-setting project include appropriate research into the issues, a proper needs analysis, and consideration of a formal project proposal.
- 37 The proposed work plan seeks to balance longer term, more resource-intensive initiatives with shorter term initiatives that are less resource intensive. While the work plan is initially set when the SWP is finalized, it evolves dynamically as work streams are launched and develop. Decisions as to the nature and extent of outputs are made in the light of research and other fact finding, consultation with stakeholders, stakeholder perspectives gathered through outreach, and coordination with the IAASB and IAESB in particular. The IESBA's [project timetable](#) is updated quarterly and is available on its website.

PRE-COMMITMENTS

- 38 Arising from recently completed projects, or pursuant to matters raised by the PIOB, the IESBA has made the following pre-commitments related to standard setting or the Code more broadly that will likely continue in 2019 or start in the new strategy period. Further details regarding these pre-commitments are set out in Appendix 1.

Advancing the Code's Relevance and Impact – Further Raising the Bar on Ethics

- Professional skepticism
- NAS
- Fee-related matters
- Part 4B⁴ vs ISAE 3000 (Revised)⁵

Deepening and Expanding the Code's Influence

- E-Code
- NOCLAR post-implementation review
- Long association post-implementation review

⁴ Formerly extant Section 291, *Independence – Other Assurance Engagements*

⁵ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

NEW ITEMS

- 39 Based on respondents' feedback to its strategy survey as well as discussions with stakeholders and its own deliberations, and having regard to its vision for the Code, the IESBA has identified the following new items as priorities for the strategy period 2019-2023:

Advancing the Code's Relevance and Impact – Maintaining a Global Code Fit for Purpose in the Evolving Environment

- Trends and developments in technology
- Emerging or newer models of service delivery

Advancing the Code's Relevance and Impact – Further Raising the Bar on Ethics

- Tax planning and related services
- Definitions of public interest entity and listed entity
- Materiality
- Communication with those charged with governance
- Documentation

Deepening and Expanding the Code's Influence

- Post-implementation review of the restructured Code

- 40 The following subsection elaborates on them as well as the pre-commitments and other actions of a more general or ongoing nature, linking them to the strategic themes.

PROPOSED ACTIONS FOR 2019-2023, AND PRIORITIES AND TIMING

STRATEGIC THEME: *Advancing the Code's Relevance and Impact*

SUB-THEME: MAINTAINING A GLOBAL CODE FIT FOR PURPOSE IN THE EVOLVING ENVIRONMENT

Trends and Developments in Technology

- 41 Major trends and developments in technology such as data analytics, emergent artificial intelligence, robotics, blockchain, cloud computing, mobile computing and social networks are rapidly transforming businesses and economies and the future of work. The global accountancy profession and stakeholders at large are recognizing the pressing need to understand and address the implications of these trends and developments. Within the context of the profession, these transformations have already begun to cause disruptions in the business models of firms, including how they deliver professional services and how they charge for such services as well as how individual PAs perform their work. For example, data analytics is impacting how firms perform audit engagements, and blockchain is prompting organizations to reconsider how they approach transaction reconciliations which have traditionally been a significant accounting task. At the same time, cyber-security has become a strategic issue for businesses large and small, and a number of major jurisdictions in recent years have introduced legislation or regulation regarding cyber-security to protect the personal information of individuals.

- 42 Given the need for a timely response, the IESBA has already established a working group in Q1 2018 to begin gathering an understanding of the transformative effects of these technological trends and developments on the assurance, accounting and finance functions, and explore their ethical implications. Examples of questions that may need to be explored include the following:
- Would new ethics standards be needed to address emergent patterns of social behavior caused by technological disruptions within the various contexts in which PAs work?
 - Would there be a need to reconsider the concept of independence of mind and the fundamental principles of integrity, objectivity and professional behavior when reliance is placed on machine anticipation, synthesis and deduction (for example, in the context of assessing audit evidence, providing strategic, financial or operational advice to clients, or preparing or presenting information)?
 - What are the ethical implications regarding compliance with the fundamental principle of professional competence and due care when an audit engagement team carries out audit procedures at a client that has implemented transformative digital technologies for its financial reporting system?
 - Are there any ethical issues from developments in information and communication technologies, for example, with respect to compliance with data privacy or intellectual property laws and regulations, or in terms of compliance with the fundamental principle of confidentiality?
 - Are there any ethical implications from newer types of services such as cyber-security advisory services or data analytics that firms may provide to clients?
 - Are there any ethical implications with respect to ownership of data when the information is stored in the “cloud” or processed and transmitted by third party service providers located in different parts of the world?
- 43 Because of the breadth of the topic, the IESBA plans initially to take a diagnostic approach. Based on its working group’s findings and recommendations, the IESBA will determine the areas of highest priority, the scope of the related issues and how best to address them. As an understanding of the developments in technology may require specialist input and advice, the IESBA will consider the merit of establishing specific expert advisory panels. Depending on the nature of the issues, there may be more than one work stream that flows from this initiative, and they may be interrelated (see also subsection “Emerging or Newer Models of Service Delivery” below). Some of the issues might also have pervasive implications across the Code, particularly if they relate to fundamental principles or concepts in the Code.
- 44 The IESBA also plans to seek avenues of coordination with the IAASB and IAESB with respect to issues in this area that overlap the remits of the boards. In this regard, the IESBA notes that the IAASB has already established a working group on the topic of data analytics.
- 45 The IESBA anticipates receiving a preliminary report from its working group by Q2 2019, and a final report and recommendations by Q3 2019.

Emerging or Newer Models of Service Delivery

- 46 The IESBA will establish a working group to explore the ethical implications of emerging or newer models of service delivery such as managed services that firms may provide or outsourced services that firms may use, and the related ethical implications for any PAIBs who are involved in decisions about such services. Some of the changes are being influenced by rapid developments in technology and changing views on the future of work, for example, the use of so-called “contingent workers”⁶ in providing services to clients. The questions that arise might concern all five of the fundamental principles in the Code as well as independence, for example:
- Are there any ethical implications such as threats to objectivity and conflict of interest issues at a staff level when firms absorb entire staff teams on their payroll from their clients as a result of entering into a contract for a managed service, for example, managing the corporate taxation function of a multi-national client?
 - Are there any implications with respect to compliance with the fundamental principles when entities outsource parts or aspects of their accounting or finance functions to third party service providers located in or outside their jurisdictions?
 - Are there any implications with respect to compliance with the fundamental principles and/or independence when firms rely on shared service centers based in or outside their jurisdictions for the performance of selected parts or aspects of professional services?
 - What do the concepts of “office” and “engagement team” in the Code mean from an independence perspective when the organizational model and ways of working (e.g. flexible workforce, contingent workers) are changing and the concept of a physical office gradually becomes less relevant?
- 47 As a first step, the IESBA will seek to obtain a detailed understanding of firms’ evolving service delivery models. Given that this work stream is closely related to that addressing trends and developments in technology, the IESBA will explore whether its working group on technology might cover some of the fact finding work on this topic. In addition, the IESBA anticipates some need for coordination with the IAASB given that some of the matters relating to outsourcing are being addressed within the IAASB’s current Quality Control project.
- 48 The IESBA anticipates establishing the working group in Q1 2019, with fact finding work beginning soon after.

Emerging Issues Initiative

- 49 The IESBA plans to continue to monitor relevant external developments through its Emerging Issues and Outreach Committee (EIOC) with a view to determining whether there is a need for any changes to the Code, the commissioning of IESBA Staff publications, or other actions. The IESBA has established the EIOC to advise it on (a) any emerging issues that may warrant attention outside of the normal strategic planning process, and (b) the scope and focus of, and approach to, outreach to stakeholders.
- 50 The IESBA anticipates semi-annual discussions on the relevant matters flowing from this initiative throughout the strategy period.

⁶ Contingent workers are generally freelancers, independent contractors, consultants, or other outsourced and non-permanent workers who are hired on a per-project basis. They can work on site or remotely.

STRATEGIC THEME: Advancing the Code's Relevance and Impact**SUB-THEME: FURTHER RAISING THE BAR ON ETHICS****Tax Planning and Related Services**

- 51 In recent years, much public attention has focused on the topic of aggressive tax avoidance notwithstanding the legality of the tax mitigation schemes or related transactions to achieve desired tax outcomes. Questions have in particular been raised regarding the ethical implications for professional behavior when PAIBs are involved in developing tax minimization strategies that are perceived as “aggressive,” or when firms provide advice to their clients on such strategies. The issue is of such major public interest significance that it has been discussed on the G-20 agenda.
- 52 The IESBA will therefore seek to understand developments in tax planning by companies and related professional services, and explore the associated ethical questions to which they give rise to determine the nature and extent of any response.
- 53 The issues involved are complex, especially given the variety of legal frameworks around the world, and therefore may only be capable of being addressed at a principles level. Nevertheless, the IESBA will seek to explore a path where it can intervene within its remit as a global ethics standard setter. As a first step, the IESBA might consider issuing a discussion paper or a thought piece to stimulate discussion on the topic among stakeholders from the perspective of PAs’ overarching obligation to comply with the fundamental principles. The IESBA plans to start this new work stream in Q2 2019.
- 54 This work stream is distinct and separate from any work the IESBA may undertake as part of its NAS initiative (see Appendix 1) to consider, from an independence perspective, the permissibility of tax planning services provided to audit clients.

Definitions of Public Interest Entity and Listed Entity

- 55 The Code defines a PIE as either a listed entity or an entity (a) defined by regulation or legislation as a PIE or (b) for which the audit is required by regulation (which may be promulgated by any relevant regulator, including an audit regulator) or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Some regulatory stakeholders such as the International Association of Insurance Supervisors (IAIS) and the Basel Committee on Banking Supervision have suggested that the definition of a PIE be re-examined from the perspective of financial institutions, including banks. Other regulatory stakeholders such as the International Organization of Securities Commissions (IOSCO) have noted that many jurisdictions do not appear to have the capacity to tailor the definition to their specific national circumstances. Other stakeholders, particularly the small and medium practices (SMP) community, have expressed concern that the independence requirements in the Code are increasingly disproportionate in those circumstances where audit and review services are provided to small entities that fall within the PIE definition.
- 56 Separately, the Code also defines a “listed entity” as an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body. Some stakeholders have questioned the meaning of the term “recognized stock exchange” in this definition, for example, whether it is intended to be the same as, or broader than, the concept of a “regulated market” in the definition of PIEs in the EU audit legislation. It was noted that some might perceive a difference as

in practice exchanges exist that are informal and outside of the scope of regulation. In addition, there might be a need to reconsider the definition given broader developments in capital markets in various jurisdictions and newer forms of capital raising, such as crowd funding.

- 57 The IESBA will therefore explore whether the definitions of these two terms should be revised and the implications of any changes on how the Code addresses PIEs and listed entities, for example, in relation to prohibitions. The IESBA plans to start this new work stream in Q2 2021.
- 58 The work stream to review the PIE definition in the Code is distinct and separate from any work the IESBA may undertake as part of its NAS initiative to consider, from an independence perspective, the permissibility of NAS services provided to PIE audit clients and clients that are not PIEs.

Materiality

- 59 Materiality is a concept that is referred to in a number of places in the Code. While the IESBA has developed new application material pursuant to its Safeguards project to explain materiality in relation to provisions addressing NAS delivered to audit clients, the Code refers to materiality in other areas, for example, in relation to other independence matters, and in Part 2 in relation to the financial interest of an individual.⁷ For instance, Section 510 of the restructured Code addressing financial interests states that “for the purposes of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.”
- 60 During its previous strategy consultation, a regulatory stakeholder had also suggested that the IESBA provide guidance on how to evaluate materiality in the context of considering breaches of the Code.
- 61 The IESBA will therefore consider whether greater clarity is needed regarding how the concept of materiality should be applied in the various places where it is referred to in the Code, and not just in relation to NAS. Such an initiative will consider standards, contemporaneous work or publications of the IAASB and the International Accounting Standards Board (IASB) regarding qualitative approaches they might have developed or are developing on the topic of materiality. The initiative might also involve IESBA coordination with these other boards as it advances its thinking.
- 62 The IESBA anticipates considering a project proposal in Q1 2021.
- 63 Separately, as part of its NAS pre-commitment, the IESBA will consider whether materiality should be a consideration in addressing the question of whether the Code should permit firms to provide NAS to audit clients from an independence perspective.

Pre-commitments

- 64 The IESBA will prioritize initiatives on its list of pre-commitments that are expected to continue into or begin in the new strategy period. These include:
 - Professional skepticism, with a project proposal anticipated in Q4 2018.
 - NAS, with fact finding work commencing Q1 2018 and a project proposal in Q4 2018.
 - Fee-related matters, for which fact finding commenced in Q1 2016.
 - Part 4B consistency with ISAE 3000 (Revised), commencing in Q3 2018.

⁷ Paragraph 240.3 A3 of Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*.

- 65 The IESBA anticipates receiving a final report and recommendations from its Fees Working Group by Q2 2018, at which time it will determine the nature and extent of any further action that may be needed in relation to the topic of Fees. Some of the issues pertaining to fees and NAS may be interrelated.

General Maintenance of the Code

- 66 The IESBA plans to set aside some capacity throughout the strategy period to address matters that may fall under the umbrella of general maintenance of the Code. Examples of such matters include limited scope clarifications within certain application material (the need for which may be identified as part of current or recently completed projects, or otherwise flagged by stakeholders), and use of consistent terminology and definitions vis-à-vis IAASB standards. Given the limited scope nature of these types of changes to the Code, the IESBA envisions that identified changes could be packaged together and released at the same time. Further, given the nature of such changes, the IESBA will, where warranted, accelerate steps in due process.

Other Matters

- 67 Subject to agenda capacity and resources, the IESBA plans to also consider towards the end of the strategy period whether changes to the Code are needed in the following two areas:

- *Communication* with those charged with governance (TCWG)

The Code currently requires auditors to communicate with TCWG in relatively few and specific circumstances, for example:

- When a breach of an independence provision occurs.
- When an audit client is a PIE and for two consecutive years the total fees from the client and its related entities represent more than 15% of the total fees of the firm.

The Code also encourages regular communication between the firm and TCWG regarding relationships and other matters that might reasonably bear on independence.

This initiative will seek to strengthen the provisions in the Code addressing communication with TCWG. This could in particular increase transparency around firms' identification and evaluation of threats to compliance with the fundamental principles and independence requirements, and the actions or measures taken to eliminate or reduce those threats to an acceptable level. Doing so could also clarify that auditor independence is a joint responsibility, and respond to regulatory stakeholders who have expressed views that a party other than the auditor itself should consider the auditor's independence. Such a review would include consideration of whether to require specific matters to be covered in the communication. (The issue of whether firms should seek pre-approval from TCWG in providing NAS to audit clients will be considered under the NAS pre-commitment.)

- *Documentation*

The Code's documentation provisions are located in various areas addressing particular topics. During its recently completed Safeguards project, the IESBA considered whether the Code includes sufficient and appropriate documentation provisions related to safeguards. As a result of this discussion, the IESBA identified a need to reconsider the nature, extent and location of material relating to documentation in the Code holistically. In addition, this initiative will consider various suggestions from respondents during recently completed projects or the IESBA's previous strategy consultation, including:

- Whether the application material that encourages documentation with respect to ethical conflict resolution should be elevated to a requirement.

- Whether the Code should require independence documentation to be of a standard that would enable another professional to understand the judgments made, and the reasoning supporting those judgments.
- Whether the requirement with respect to documentation of threats to independence that necessitate significant analysis should be extended to any threats to independence requiring analysis.

In addition, this initiative will consider a question that arose during the MG Rover case in the UK in the past few years regarding whether PAIBs should be subject to a documentation requirement in certain circumstances. The Code currently only encourages documentation for PAIBs.

STRATEGIC THEME: Deepening and Expanding the Code's Influence

Promoting Global Adoption of the Restructured Code

- 68 With the issuance of the restructured Code in April 2018, the IESBA will pursue vigorous outreach efforts to raise awareness of the significant improvements to the Code and promote its global adoption. In this regard, the IESBA has established a working group in Q1 2018 to develop rollout initiatives to support adoption and implementation⁸ of the restructured Code as well as a strategy for outreach and communication. The IESBA anticipates these activities to continue well into the new strategy period given its expectation that adoption will follow a gradual path as jurisdictions follow their national due processes.

Monitoring and Documenting the Extent of Adoption of the Code

- 69 In collaboration with the IFAC Compliance Advisory Panel, the IESBA plans to regularly update information regarding the extent of global adoption of the Code. The IESBA also plans to work closely with the Compliance Advisory Panel to explore whether IFAC member bodies could be encouraged to benchmark their national ethics standards against the Code, specifically with a view to identifying any national requirements that are more or less stringent than the Code and understanding why. This activity will be of an ongoing nature.

Pre-commitments

- 70 The IESBA will prioritize further development of the e-Code, leveraging the platform of the restructured Code. The IESBA envisions the e-Code to be a primary tool of reference for firms, individual PAs, IFAC member bodies and other stakeholders in the medium to longer term. This initiative will explore how best to leverage newer technologies, including mobile access, to make the content of the Code as widely accessible and visible, and as easy to use as possible. In addition to providing an enhanced search facility, the IESBA anticipates the e-Code to contain links to bases for conclusions, IESBA Staff publications and other relevant material outside the Code that provide contextual information or explain the rationale for particular provisions in the Code.
- 71 The IESBA has established a working group in Q1 2018 to lead this initiative. The focus of the first phase of this work stream, beginning in Q1 2018, will be on building enhanced search functionality into the e-Code. This phase is targeted for completion by the end of Q4 2019, in close proximity to when the restructured Code becomes effective. The second phase of this

⁸ Resources to promote adoption and support implementation of the restructured Code are available on the [IESBA website](#).

initiative, expected to start in Q1 2020, will focus on developing additional functionality for the e-Code. The working group will advise the IESBA on the scope, deliverables and timeline for this second phase in due course. Additional phases will be subject to IESBA discussion and the progress achieved and experience gained from the first two phases.

- 72 The IESBA will also undertake the following post-implementation reviews in the new strategy period:
- NOCLAR, commencing Q1 2022.
 - Long association, commencing Q1 2022.

Post-Implementation Review of the Restructured Code

- 73 In restructuring the Code, the IESBA has aimed to enhance its understandability and usability, thereby facilitating its adoption, effective implementation, consistent application, and enforcement. The project, which was completed in December 2017, has involved extensive restructuring and redrafting of the Code.
- 74 Given the important objectives of the project, the IESBA will undertake a post-implementation review of the restructured Code with a view to assessing whether its implementation around the world is effectively meeting those objectives. This post-implementation review will focus only on broader issues of usability and application, and not on the substantive changes to various sections that are now included in the restructured Code.
- 75 The IESBA plans for this initiative to commence in Q2 2023 to allow sufficient time for the restructured Code to bed down and for jurisdictions and firms of all sizes to gather sufficient experience in implementing it. The IESBA anticipates that the output from this initiative will feed into the development of the SWP for the subsequent strategy period.

Other Activities

- 76 In support of adoption and implementation, the IESBA will also undertake various other activities throughout the strategy period, including the following:
- Developing and executing a robust communication strategy.
 - Pursuing a proactive stakeholder outreach agenda, including understanding stakeholder experiences regarding adoption and implementation of the restructured Code.
 - Commissioning the development of appropriate staff publications in support of adoption and implementation.

STRATEGIC THEME: Expanding the IESBA's Perspectives and Inputs

Coordination with the IAASB and IAESB

- 77 As a pervasive aspect of its strategy, the IESBA will prioritize close coordination with the IAASB and IAESB. To this end, staff of the IAASB and IESBA are maintaining an inventory of topics or areas requiring or potentially requiring coordination. In addition, the two boards have each appointed a member to act as liaison to the other board.

- 78 Topics on which coordination is already taking place include professional skepticism, the objectivity and other attributes of the engagement quality control reviewer in the context of audits of financial statements, the review of Part 4B of the restructured Code for consistency with ISAE 3000 (Revised), and the IAASB's project to revise ISRS 4400.⁹ Further information about coordination between the two boards, including updates on coordination efforts in progress, will be available on the IESBA's website in the near future.
- 79 The IESBA will also pursue coordination with the IAESB on topics where there is a clear overlap with respect to the remits of both boards. Such coordination is already in process with respect to the pre-commitment relating to professional skepticism.

Other Actions

- 80 The IESBA also plans to undertake the following actions throughout the strategy period:
- It will seek to extend and deepen engagement and cooperation with stakeholders, including NSS, regulators and audit oversight bodies, and firms.
 - It will speak out on ethics-related developments that have the potential to lead to greater divergence in standards, and seek to influence debates towards greater international convergence
 - It will engage proactively with the Forum of Firms, the IFAC SMP Committee, the IFAC PAIB Committee and other relevant committees of IFAC in seeking their inputs and perspectives on relevant projects, work streams or initiatives.
- 81 The IESBA also plans to proactively engage with the academic community, recognizing the contributions that this community can make through its research or other work in informing the IESBA's standard-setting activities.

SUMMARY OF PROJECTS, WORK STREAMS AND ACTIVITIES, AND WORK PLAN 2019–2023

- 82 Appendix 2 summarizes the projects, work streams and activities the IESBA plans to undertake during the strategy period and, where appropriate, when each project, work stream or activity is expected to commence and when it is expected to be completed.
- 83 Appendix 3 presents an *illustrative* work plan indicating possible milestones or deliverables within each of the five years in the new strategy period.

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QUESTIONS

2. Do you support the actions that have been identified with respect to each strategic theme? If not, please explain why.
3. Recognizing that this proposed SWP is ambitious, do you believe the IESBA should accelerate or defer any particular work stream(s)? If so, please explain why.
4. Do you have comments on any other matters addressed in this consultation paper or any significant matters not covered in this consultation paper that you believe the IESBA should address?

⁹ International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-upon Procedures Regarding Financial Information.

PRE-COMMITMENTS

APPENDIX 1

COMMITMENT	DESCRIPTION
Commitments Arising from Decisions on Recently Finalized Standards and PIOB Input	
1. NAS	<p>In January 2015, the IESBA completed a project to revise certain independence provisions in the Code pertaining to the provision of NAS to audit and assurance clients. The main changes included:</p> <ul style="list-style-type: none"> • The withdrawal of provisions that permitted a firm to provide certain bookkeeping and taxation services to PIE audit clients in emergency situations. • New and clarified guidance regarding what constitutes management responsibility. • Clarified guidance regarding the concept of “routine or mechanical” services relating to the preparation of accounting records and financial statements for audit clients that are not PIEs. <p>The Basis for Conclusions includes background to the project.</p> <p>At the time the IESBA undertook the project, the IESBA had concluded, based on a benchmarking exercise focused on G-20 countries and a select number of other jurisdictions in early 2013, that there was no evidence that the Code’s NAS provisions were at significant variance from those of most or all of these jurisdictions. In approving the changes to the Code from this project in March 2015, however, the PIOB called on the IESBA to revisit issues on auditor independence from a broader perspective, including prohibited NAS and the role of those charged with governance in approving NAS.</p> <p>Preliminary work on this initiative will include a review of updated benchmarking data as well as the results of the fact finding work on the Fees initiative (see below) to determine the scope of any potential project on this topic. The IESBA held a first discussion on the topic at its March 2018 meeting and agreed to hold a series of three global roundtables in Washington DC, Paris and Tokyo in June and July 2018 to obtain stakeholder input to help frame the scope and direction of a potential project on the topic.</p>
2. Fee-related matters	<p>This is a commitment in the IESBA’s current strategy and work plan. The IESBA is exploring fee-related matters raised by the regulatory community to determine whether there is a need for further enhancements to the Code or the commissioning of staff guidance.</p> <p>Fact finding work commenced in 2016 in response to PIOB input and is aimed at identifying whether there are trends or other factors that indicate a relationship between fees and threats to auditor independence and compliance with the fundamental principles, or whether there are reasonable perceptions that such threats exist, and how they might be addressed. The fact finding is focusing in particular, on whether such relationships exist in the following areas:</p> <ul style="list-style-type: none"> • Level of audit fees for individual audit engagements. • Relative size of fees to the partner, office or the firm, and the extent to which partner(s) remuneration is dependent upon fees from a particular client. • The ratio of non-audit services fees to audit fees paid by an audit client. • The provision of audit services by a firm that also has a significant non-audit services business. <p>The IESBA will consider a final report and recommendations from its Working Group at its June 2018 meeting with a view to determining what standard-setting or other actions, if any, it should take on this topic.</p> <p>Aspects of this topic, for example, the ratio of non-audit services to audit fees for a particular client, may also be considered further and addressed under the NAS work stream (see above).</p>

COMMITMENT	DESCRIPTION
3. NOCLAR post-implementation review	<p>In April 2016, the IESBA finalized the provisions in the Code addressing the topic of non-compliance with laws and regulations (NOCLAR). The new provisions came into effect July 15, 2017. In completing that project, the IESBA committed to undertake a post-implementation review to assess how effectively the implementation of the provisions around the world is meeting the objectives of the project.</p> <p>The IESBA has not yet considered the approach to, and precise timing of, the post-implementation review.</p>
4. Long association post-implementation review	<p>In December 2016, the IESBA finalized revisions to the provisions in the Code addressing the long association of firm personnel with an audit or assurance client. These provisions have been redrafted to align with the new structure and drafting conventions of the Code and are included in the restructured Code.</p> <p>In completing the revisions project, the IESBA committed to review the new provisions to take account of, among other matters, relevant legislative and regulatory developments relating to long association (including mandatory firm rotation and mandatory retendering) as well as experience of the application of the new provisions in practice.</p> <p>The IESBA has not yet considered the approach to, and precise timing of, the post-implementation review.</p>

Active Project or Initiatives, and Commitments in the Current Strategy and Work Plan

5. Professional skepticism (PS)	<p>The IESBA is exploring how best to respond to calls from the PIOB and certain stakeholders to address the applicability of the concept of PS to all PAs. For example, some respondents to Phase 1 of the IESBA's Part C project have suggested that the Code should emphasize the need for PAIBs to exercise adequate PS throughout the process of preparing, presenting or filing information. Other stakeholders have argued that PAIBs should always maintain PS and that the concept should not be limited to auditors. At its March 2018 meeting, the IESBA discussed a draft consultation paper to solicit feedback from stakeholders on the relevant issues. The consultation paper is expected to be issued in Q2 2018. The IESBA will also seek input from stakeholders on the issues being considered on this topic at the three global roundtables planned for NAS in June-July 2018.</p> <p>As part of a separate but related short-term project, in December 2017 the IESBA finalized application material to (a) explain how the fundamental principles in the Code support the effective application of PS as defined in IAASB standards, and (b) emphasize the importance of PAs obtaining an understanding of the facts and circumstances known to them when exercising professional judgment in applying the conceptual framework in the Code. The application material is included in the restructured Code.</p>
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New Commitments Arising from Discussions on Recently Completed Projects

6. Consistency of Part 4B of the restructured Code with ISAE 3000 (Revised)	<p>This involves a review of Part 4B for any changes needed to make the provisions in that section consistent with the revised assurance terms and concepts in ISAE 3000 (Revised). The need for this review has been identified during the restructuring of the Code but was outside the remit of the Structure of the Code project. To avoid delaying completion of that project, the IESBA agreed to defer the review until after completion of the restructuring of the Code.</p>
7. Development of the e-Code	<p>This involves leveraging the new structure of the Code and developments in technology to explore additional features and tools that could be developed to increase the accessibility, visibility and ease of use of the Code, leveraging appropriate digital platforms. A web-based version of the Code with basic search functionality, hyperlinked sections and pop-up definitions of key terms is available on the IESBA website.</p>

PROJECTS, WORK STREAMS AND ACTIVITIES FOR 2019-2023

APPENDIX 2

PROJECT/WORK STREAM/ACTIVITY	SCOPE	EXPECTED START	EXPECTED COMPLETION ¹⁰
Advancing the Code's Relevance and Impact MAINTAINING A GLOBAL CODE FIT FOR PURPOSE IN THE EVOLVING ENVIRONMENT			
New Work Streams Trends and Developments in Technology <ul style="list-style-type: none"> Gather an understanding of the transformative effects of trends and developments in technology on the assurance, accounting and finance functions, and explore their ethical implications. 	Whole Code (PAPPs and PAIBs)	Commencing Q2 2018	Report on fact finding: Q3 2019 Final pronouncement(s) 2022
Emerging or Newer Models of Service Delivery <ul style="list-style-type: none"> Explore the ethical implications of emerging or newer models of service delivery such as managed services that firms may provide or outsourced services that firms may use, and the related ethical implications for any PAIBs who are involved in decisions about such services. 	Part 3 applicable to PAPPs, and International Independence Standards (IIS)	Commencing Q1 2019	Report on fact finding: Q4 2019 Final pronouncement 2022
Ongoing Activity Emerging issues <ul style="list-style-type: none"> Consider emerging issues brought forward by the EIOC and determine appropriate actions. 			Ongoing
Advancing the Code's Relevance and Impact RAISING THE BAR ON ETHICS			
Pre-commitments Professional Skepticism <ul style="list-style-type: none"> Explore how best to respond to calls from the PIOB and certain stakeholders for enhancement to the exercise of the concept of professional skepticism among all categories of PAs in the Code. 	Whole Code (PAPPs and PAIBs)	Fact finding commenced Q2 2017 Project proposal Q4 2018	Q4 2020
NAS <ul style="list-style-type: none"> Review the independence provisions in the Code applicable to the provision of NAS to audit and assurance clients from a broad permissibility perspective. 	IIS	Fact finding commencing Q1 2018 Project proposal Q4 2018	Q3 2021
Fee-related Matters <ul style="list-style-type: none"> Explore fee-related matters raised by the regulatory community to determine whether there is a need for further enhancements to the Code or the commissioning of staff guidance. 	Part 3 of the restructured Code applicable to PAPPs, and IIS	Fact finding commenced Q1 2016	Report and recommendations Q2 2018; nature and timing of deliverables subject to Working Group report and recommendations
Part 4B Consistency with ISAE 3000 (Revised) <ul style="list-style-type: none"> Review Part 4B of the restructured Code for any changes needed to make the provisions in that section consistent with the assurance terms and concepts in ISAE 3000 (Revised). 	IIS	Project proposal Q3 2018	Q2 2020

¹⁰ The actual completion date may vary depending on the progress of the project or work stream and the need to follow due process.

PROJECT/WORK STREAM/ACTIVITY	SCOPE	EXPECTED START	EXPECTED COMPLETION ¹⁰
New Work Streams Definitions of Public Interest Entity and Listed Entity <ul style="list-style-type: none">Explore whether the definitions of these two terms should be revised and the implications of any changes on how the Code addresses PIEs and listed entities.	IIS	Project proposal Q2 2021	Q1 2023
Materiality <ul style="list-style-type: none">Consider whether greater clarity is needed regarding how the concept of materiality should be applied across the Code.	Whole Code (PAPPs and PAIBs)	Project proposal Q1 2021	Q2 2023
Tax Planning and Related Services <ul style="list-style-type: none">Obtain an understanding of developments in tax planning by companies and related professional services, and explore the associated ethical questions to which they give rise to determine the nature and extent of any response.	Whole Code (PAPPs and PAIBs)	Fact finding commencing Q2 2019	Nature and timing of deliverables subject to fact finding and IESBA discussions
Communication with Those Charged with Governance <ul style="list-style-type: none">Review the provisions in the Code addressing communication with TCWG to determine how they can be strengthened.	Part 3 applicable to PAPPs, and IIS	Project proposal Q1 2023	2025
Documentation <ul style="list-style-type: none">Review the nature, extent and location of material relating to documentation in the Code to determine how they can be streamlined and, where appropriate, strengthened.	Whole Code (PAPPs and PAIBs)	Project proposal Q3 2023	2026
General Maintenance of the Code <ul style="list-style-type: none">Address the need for limited scope changes to the Code of a general maintenance nature.	Whole Code (PAPPs and PAIBs)	Ongoing	
Deepening and Expanding the Code's Influence			
Pre-commitments E-Code <ul style="list-style-type: none">Leverage the new structure of the Code and developments in technology to explore additional features and tools that could be developed to increase the accessibility, visibility and ease of use of the Code.	Whole Code (PAPPs and PAIBs)	Phase 1 commenced Q1 2018 Phase 2 commencing Q1 2020	Phase 1: Q4 2019 Phase 2: Q2 2021
NOCLAR Post-implementation Review <ul style="list-style-type: none">Review how effectively the implementation of the NOCLAR provisions around the world is meeting the objectives of the project.	Parts 2 and 3 (PAIBs and PAPPs, respectively)	Fact finding commencing Q1 2022	Final report Q3 2023
Long association post-implementation review <ul style="list-style-type: none">Review how effectively the revised long association provisions in the Code are being implemented in practice.	IIS	Fact finding commencing Q1 2022	Final report Q2 2023

PROJECT/WORK STREAM/ACTIVITY	SCOPE	EXPECTED START	EXPECTED COMPLETION ¹⁰
New Work Stream Post-Implementation Review of the Restructured Code <ul style="list-style-type: none"> Undertake a post-implementation review of the restructured Code with a view to assessing whether its implementation around the world is effectively meeting the objectives of the restructuring project. 	Whole Code (PAPPs and PAIBs)	Fact finding commencing Q2 2023	Q4 2024
Ongoing Activities Promoting Global Adoption of the Restructured Code <ul style="list-style-type: none"> Undertake outreach efforts to raise awareness of the significant improvements in the restructured Code and promote its global adoption. 		Commencing Q2 2018	Ongoing
Monitoring and Documenting the Extent of Adoption of the Code			Ongoing
Developing and executing a robust communication strategy			Ongoing
Pursuing a proactive stakeholder outreach agenda			Ongoing
Commissioning the development of appropriate staff publications in support of adoption and implementation			Ongoing
Expanding the IESBA's Perspectives and Inputs			
Coordination with Other Standard-setting Boards Engage in close coordination with the IAASB and IAESB on topics or areas that overlap the remits of the two boards.			Ongoing (Capacity reserved for coordination work streams)
Ongoing Activities <ul style="list-style-type: none"> Seek to extend and deepen engagement and cooperation with stakeholders, including NSS, regulators and audit oversight bodies, and firms. Speak out on ethics-related developments that have the potential to lead to greater divergence in standards, and seek to influence debates towards greater international convergence. Engage proactively with the Forum of Firms, the IFAC SMP Committee, the IFAC PAIB Committee and other relevant committees of IFAC in seeking their inputs and perspectives on relevant projects, work streams or initiatives. Proactively engage with the academic community. 			Ongoing

SUMMARY ILLUSTRATIVE IESBA WORK PLAN 2019-2023¹¹

APPENDIX 3

WORK STREAM	ANTICIPATED DEMAND ON BOARD PLENARY TIME	MILESTONE OR DELIVERABLE				
		2019	2020	2021	2022	2023
Advancing the Code’s Relevance and Impact MAINTAINING A GLOBAL CODE FIT FOR PURPOSE IN THE EVOLVING ENVIRONMENT						
Technology	High	Final report and project proposal(s)	Exposure Draft(s) (ED(s))	Full review ED responses	Final pronouncement(s)	
Service delivery models	High	Final report and project proposal	ED	Full review ED responses	Final pronouncement	
EIOC	Low	Discussion	Discussion	Discussion	Discussion	Discussion
Advancing the Code’s Relevance and Impact RAISING THE BAR ON ETHICS						
Professional skepticism	Medium	ED	Final pronouncement			
NAS	High	First-read draft ED	ED	Final pronouncement		
Fee-related matters	High	Subject to Working Group report and recommendations				
Part 4B vs ISAE 3000	Low	ED	Final pronouncement			
Coordination topic 1	To be determined (TBD)	TBD	TBD	TBD	TBD	TBD
Coordination topic 2	TBD	TBD	TBD	TBD	TBD	TBD
Coordination topic 3	TBD	TBD	TBD	TBD	TBD	TBD
Definitions – PIE and Listed	Medium			Project proposal	ED	Final pronouncement
Materiality	Medium			Project proposal	ED	Final pronouncement

¹¹ This *illustrative* work plan is only intended to indicate at a broad level possible milestones or deliverables for various projects and initiatives based on considerations at the time this SWP is finalized. The nature and timing of milestones and deliverables may change.

WORK STREAM	ANTICIPATED DEMAND ON BOARD PLENARY TIME	MILESTONE OR DELIVERABLE				
		2019	2020	2021	2022	2023
Tax planning	High	Fact finding	Working Group report and recommendations	Subject to Working Group report and recommendations		
Communication with TCWG	Medium					First read draft ED
Documentation	Medium					Project proposal
General maintenance	Low	TBD	TBD	TBD	TBD	TBD
Deepening and Expanding the Code's Influence						
E-Code	Low	Finalize Phase 1	Phase 2 prototype	Finalize Phase 2		
NOCLAR post-implementation	Low				Fact finding	Working Group report and recommendations
LA post-implementation	Low				Fact finding	Working Group report and recommendations
Post-implementation review restructured Code	Medium					Fact finding
Promote global adoption	Low	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
Monitor and document global adoption	Low	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
Action communication strategy	Low	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing

WORK STREAM	ANTICIPATED DEMAND ON BOARD PLENARY TIME	MILESTONE OR DELIVERABLE				
		2019	2020	2021	2022	2023
Pursue stakeholder outreach	Low	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
Commission staff publications	Low	TBD	TBD	TBD	TBD	TBD
<i>Expanding the IESBA's Perspectives and Inputs</i>						
SSB coordination	Medium	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
Extend stakeholder engagement	Low	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing
Speak out on ethics	Low	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing





NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 24 May 2018

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

FROM: Peyman Momenan

SUBJECT: International Update

Introduction

1. This Update summarises the significant news of the IAASB, other national auditing standards-setting bodies and professional organisations for the Board's information, for April and May 2018.

International Federation of Accountants (IFAC)

1. IFAC commissioned Gibson Dunn, a leading global law firm, to perform an independent qualitative and quantitative analysis of the public responses to the Consultation Paper published by the Monitoring Group: *Strengthening the Governance and Oversight of the International Audit-related Standard-setting Boards in the Public Interest*.

A large number of responses were received from stakeholders from around the world. The 179 responses included investors, standard setters, government auditors, regulators, researchers, individuals, accounting firms and professional organizations from a wide range of geographies. In any consultation, the input from all respondents must be considered. It should be noted that 74 professional accountancy organizations, or 41 percent of all respondents, felt strongly enough to provide comments. Notably, the overall, main conclusions from the report remained intact even when responses from these accountancy organizations were removed from the analysis.

[The Gibson Dunn analysis](#) highlighted marked differences of opinion across geographies and stakeholder groups on key proposals, but included several overall, main conclusions:

- Respondents generally criticized the premise of the Consultation Paper, namely that there are major concerns with the current standard-setting process. Respondents also expressed concern that a Public Interest Framework to evaluate change has not yet been issued and agreed.
- Respondents generally expressed scepticism regarding the broader governance changes proposed by the Consultation Paper.
- Respondents provided significant support for some operational changes proposed in the Consultation Paper.

After carefully reviewing the report IFAC has the following observations:

- Broad support and agreement for any Public Interest Framework is necessary before any of the broader governance changes proposed can be properly assessed.
 - While there was virtually universal agreement that any changes must be in the public interest, there was significant criticism that the proposed Public Interest Framework has not been released for consultation.

- The Public Interest Framework, agreed by stakeholders, should include multi stakeholder composition of both the standards boards and their oversight bodies, and should provide the umbrella within which all significant proposals can be evaluated and agreed as an integrated package by key stakeholders.
- Seeking consensus on proposals which could have a significant global impact depends not only on the merits of the proposals but also on the way the process is conducted; a new multi stakeholder approach is needed.
 - The way forward should be under the direction of a multi stakeholder group that will engage all key stakeholders in a broad, open and collaborative dialogue.
 - The need for this multi stakeholder group is reinforced not only by the multi stakeholder elements that should undoubtedly form part of the Public Interest Framework but also by the differences of opinion that currently exist across geographies and stakeholder groups.
 - Without this approach global agreement and international acceptance is unlikely.
- Change and transition can bring significant disruption and risk that must be mitigated.
 - Any steps taken must not jeopardize the existing widespread adoption of the International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board for Accountants (IESBA) standards, their acknowledged high quality, or the standard boards' current work plans.
 - This concern is particularly relevant at a time when the standard-setting process must deal in a timely way with the impact of changes to complex accounting standards, as well as a rapidly changing technology and audit environment.
 - Any changes proposed must be justified on a cost/benefit basis and have widespread international support, particularly as there is general agreement among respondents on the absence of significant problems with the current standard-setting processes.
 - Forming a multi stakeholder group to take the process forward should assist in mitigating disruption and risk.
 - Steps to improve operational processes can and should be taken quickly.
- There is strong support for some operational changes.
 - IFAC takes its responsibility to support the operations of the independent standard-setting boards very seriously.
 - IFAC is reviewing identified operational areas with IAASB and IESBA leadership and other stakeholders to determine the actions they would agree can be taken now to improve the efficiency and effectiveness of the operations of the two boards in the public interest.

IFAC intends to actively engage with all stakeholders to seek a revised approach to improve the standard-setting process, that responds constructively to the feedback received, and that is:

- Grounded in a Public Interest Framework that needs to be agreed as a first step in the process.
- Under the direction of a multi stakeholder group.
- Designed to minimize disruption and risk.
- Focused on making agreed operational improvements.

International Auditing and Assurance Standards Board (IAASB)

1. IAASB Ongoing projects (refer to appendix 1)

International Ethics Standards Board for Accountants (IESBA)

1. IESBA news for the period are all covered in the meeting Agenda items.

Accountancy Europe (AE) (former FEE)

1. In 2017 AE issued a discussion paper: [How to respond to assurance needs on non-financial information?](#) and organised a workshop on the practical challenges of NFI assurance with the World Business Council for Sustainable Development (WBCSD). In May 2018, AE published a [report which analyses the expert feedback they received to both initiatives](#).
2. The AE published [a discussion paper which includes their proposed solutions for simplifying/replacing audit of SMEs](#). The proposed solutions includes:
 - To continue working within the existing ISAs by :
 - i. Developing guidance for audit of small and non-complex entities
 - ii. Revising the ISAs by applying a “think small first” approach
 - iii. Simplifying the language of the ISAs
 - iv. Apply information technology to streamline application of ISAs for SMPs (i.e. IAASB develops a software for auditing with IASs incorporated into the methodology).
 - To issue a standalone standard either outside or alongside the IASs
 - To include aspects of a direct assurance engagement to an audit of financial statements whereby the auditor both complies the financial statements and provides assurance at the same time.
 - To increase use of data analytics to increase the efficiency of small audits.

Public Interest Oversight Board of IFAC (PIOB)

1. There have been no significant developments related to audit and assurance to report in the period.

International Integrated Reporting Council (IIRC)

1. The European Commission has [launched a public consultation](#) to review its current public reporting requirements to assess whether the EU reporting framework is still fit for purpose. This consultation will help set the path for the future of corporate reporting across Europe. As an increasingly used and important reporting framework, the European Commission are asking about the benefits that integrated reporting could bring and the role it should play in the future of reporting in Europe.
2. IIRC presidents notes in his article that organizations are still facing challenges as they develop their materiality determination process in integrated reports. First, materiality as a concept has been well honed and developed to support financial reporting and thus much of the strength and depth builds on this background and not on non-financial aspects. Second, materiality in reporting can be different from materiality in strategy; most organizations drive reporting from strategy where strategy formulation is the point at which the criticality of key influencers and resources of enterprise activity – i.e. the business model are determined.

Reviewing the statements of materiality in existing reports using the integrated reporting model seem to raise the question as to whether a shift to integrated thinking is occurring? As an example, the 2016 report of Sun International identifies the approach to materiality, but then places the responsibility with the financial team – i.e. a somewhat traditional approach?

Global Reporting Initiative (GRI)

1. GRI has published [a web article](#) to highlight how they assessed materiality for their annual reports prepared in accordance with the GRI framework.
2. GRI highlights the following developments in capital markets in relation to sustainable reporting:
 - The World Federation of Exchanges has established [sustainability as a priority](#) for the coming year.
 - In line with this, the Colombo Stock Exchange in Sri Lanka has launched its guidance, [Communicating Sustainability: Six Recommendations for listed companies](#).

Read more about how the Colombo Stock Exchange is working together with GRI to [support listed companies in their sustainability reporting efforts](#).

In Europe

- On 31 January, the EU High-Level Expert Group on Sustainable Finance launched its [final report](#) with strategic recommendations “for a financial systems that support sustainable investment”. GRI welcomes this development, which lays out ideas that can help sustainable development through informed capital allocation decisions.
- Eurosif launched an update to the [European SRI Transparency Code](#). This document will help guide asset managers to meet relevant SRI requirements for their products.
- The Luxembourg Stock Exchange has launched a revised version of the [X Principles of Corporate Governance](#) to integrate [mandatory disclosure of company CSR commitments](#). This means that companies incorporated under Luxembourgish law and listed on the regulated market will, from now on, have to disclose CSR policies. All other listed companies can do so on a voluntary basis.
- The European Commission launched its [Action Plan on Sustainable Finance](#) which, among others, establishes a taxonomy system for sustainable activities that will help create a common language when reporting, and introduces measures to clarify the duty of investors regarding sustainability.

International Forum of Independent Audit Regulators (IFIAR)

1. IFIAR addressed [Emerging Disruptive Enablers and the Future of Audit at Annual Plenary Meeting](#) in Canada, April 17-19, 2018. Many factors are influencing the future of audit oversight, including the interconnectedness and volatility of the global economy, challenges to the relevance of the audit, changes in demographics and professional qualifications, the risks and opportunities of potentially disruptive technologies, and developments in audit/accounting standards and the broader financial regulatory system. This year's discussions focused on existing and potential disruptors to the audit, their impact on the future of audit as we know it today, and confirmed IFIAR's strategic approach in this changing environment.

International Organization of Supreme Audit Institutions (INTOSAI)

1. There have been no significant developments related to audit and assurance to report in the period.

International Organization of Securities Commissions (IOSCO)

1. IOSCO published in April 2018, s [Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality](#), which is intended to assist audit committees of issuers of listed securities in promoting and supporting audit quality. Findings of reviews by audit regulators indicate a need to improve audit quality and consistency of audit execution. While the auditor has primary responsibility for audit quality, the audit committee can promote and support audit quality and thereby contribute to greater confidence in the quality of information in the issuers' financial reports. The good practices report can therefore assist audit committees in considering ways in which they may be able to promote and support audit quality.

Australia

The Australian Auditing and Assurance Standards Board (AUASB)

1. Highlights from the April 2018 AUASB meeting include:
 - The AUASB received an update on the Financial Reporting Council's (FRC) audit quality initiatives and activities the AUASB Technical Group (ATG) had undertaken in relation the AUASB's 'Audit Quality – Working Collaboratively with Audit Regulators' strategic project. AUASB members also provided feedback on the draft questions for a planned survey of ASX 300 Audit Committee Chairs on their perceptions of current audit quality.
 - An updated AUASB International Strategy was tabled and approved, taking into account feedback AUASB members provided at the March 2018 AUASB meeting. The AUASB received a summary of the highlights from the March 2018 IAASB meeting, with a particular

focus on the progression of the two highest priority projects in the current IAASB work plan: ISA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates and related Disclosures and ISA 315 Identifying and Assessing the Risk of Material Misstatement. AUASB members discussed the current process the AUASB uses to expose IAASB standards and whether this should be changed so that exposure drafts (EDs) are issued in Australia concurrently with the IAASB's ED. The AUASB agreed to trial this new process in connection with the upcoming ISA 315 ED. Other International Matters covered by the AUASB at this meeting included discussing details of the agenda for the upcoming IAASB National Standard Setters Meeting and roundtables to obtain feedback from Australian and New Zealand stakeholders in relation to the next phase of the Monitoring Group's proposed reforms to the global standard setting process planned for June 2018.

- The ATG provided an update on the AUASB Technical Work Program, including strategic project plans covering:
 - Emerging Forms of External Reporting (EER)
 - Public Sector Audit Issues
 - Financial Reporting and Assurance Frameworks; and
 - Auditor Reporting Implementation.

The AUASB discussed new proposed strategic project topics addressing audit issues for small and medium entities/small and medium practices and superannuation funds, and verbal updates were provided on the strategic projects associated with Data Analytics and Prescribed Reports. The ATG presented a new project plan to update the AUASB Glossary, which was approved by the AUASB.

- An AUASB member highlighted the recently effective 'Safe Harbour' provisions of the Corporations Act 2001. The ATG was asked to consider any implications for the AUASB's Assurance Framework arising from this updated legislative provision and raise any issues at a future AUASB meeting.

United Kingdom

Financial Reporting Council (FRC)

1. It is important that firms create a culture where achieving high quality audit is valued and rewarded, and which emphasises the importance of 'doing the right thing' in the public interest according to a new report by the Financial Reporting Council (FRC), '[Audit Culture Thematic Review](#)'. The FRC considered how firms identify and pay attention to challenges in their culture and take action to address them to promote and sustain improvements in audit quality.

The report notes that firms are investing considerable time and effort on their firm-wide culture and identifies numerous examples of good practice among firms and highlights key areas that firms should address to enhance audit quality.

Key areas where firms should focus greater attention to establish, embed and promote an appropriate audit culture include:

- Giving additional prominence to audit specific behaviours and values within the firms' cultural design, including the fundamental principles of integrity, objectivity, independence and professional scepticism that underpin high quality audit;
- Ensuring that all audit partners and staff appreciate that a good audit is of significant societal value and helps to underpin transparency and integrity in business;
- Balancing the firms' robust processes to sanction poor quality work or behaviour with better recognition of positive contributions to high audit quality;
- Further developing the firms' root cause analysis techniques to identify the behavioural or cultural factors that contributed to good and poor quality outcomes; and
- Improving the firms' monitoring of how successful they are at embedding their desired culture, including the Independent Non Executives of the firms being more proactive when performing their assessment of the steps being taken by the firms to embed an appropriate culture.

- The FRC encourages firms to provide more extensive and transparent public reporting on their culture to enhance engagement with stakeholders and to build confidence and trust.

This is the first time that the FRC has published a report on audit culture. Looking forward, the FRC plans to review the culture at the largest firms as part of its recently announced expanded monitoring and supervision of those firms, and encourage investors and other stakeholders to consider the link between culture and audit quality.

2. FRC has announced [plans to enhance its monitoring of the six largest audit firms](#) to avoid systematic deficiencies within firms' networks, disruption in the provision of statutory audit services and instability in the financial sector. The FRC will set out its expectations of each audit firm and use evidence it gains to inform its supervision programme for these firms.

The FRC will focus its attention on five key pillars that are critical to the stability of the audit firms and quality of audit work. These are:

- Leadership and governance;
- Values and behaviours;
- Business models and financial soundness;
- Risk management and control; and
- Evidence on audit quality, including from the FRC's annual programme of audit quality reviews.

The FRC has begun work on monitoring risk reporting, contingency planning and IT security at audit firms and will report to the firms on its findings on all the five pillars. The results of the FRC's inspection of audit quality by the firms will be published in firm-specific reports in June and summarised in the annual Developments in Audit report in July.

3. In the final report of their inquiry into the spectacular collapse of Carillion, the Work and Pensions and BEIS Committees conclude that Government has "lacked the decisiveness or bravery" to address the failures in corporate regulation that allowed Carillion to become a "giant and unsustainable corporate time bomb".
 - [Read the conclusions and recommendations](#)
 - [Read the summary](#)
 - [Read the full report: Carillion](#)

Institute of Chartered Accountants in England and Wales

1. There have been no significant developments related to audit and assurance to report in the period.

The Charity Commission

1. The Charity Commission, the regulator of charities in England and Wales, has [published the findings of a study](#) which has found that cultural factors, such as placing excessive trust or responsibility in individuals, or the lack of internal challenge and oversight, contributed to 70% of insider frauds within a sample of charities analysed by the Commission.

The Commission is therefore urging all charities to foster a culture where staff, trustees and volunteers are reminded of the need to challenge any concerning behaviour and not turn a blind eye when internal processes aren't followed.

The findings follow a number of high profile cases of insider fraud in charities recently, including Birmingham Dogs Home, where the former chief-executive stole £900,000 from the charity. The head of finance at NSA Afan was jailed earlier this week for spending almost £54,000 of the charity's money for her own personal.

Association of Chartered Certified Accountants (ACCA)

1. There have been no significant developments related to audit and assurance to report in the period.

United States of America

Public Company Accounting Oversight Board (PCAOB)

1. There have been no significant developments related to audit and assurance to report in the period.

American Institute of Certified Public Accountants (AICPA)

1. See under CPA Canada.

Center for Audit Quality (CAQ) - (affiliated with AICPA)

1. CAQ [released a tool](#) to assist board members in their oversight of enterprise-wide cybersecurity risk management in April 2018. This tool, Cybersecurity Risk Management Oversight: A Tool for Board Members, provides questions board members can use as they discuss cybersecurity risks and disclosures with management and CPA firms. The questions are grouped under four key areas:
 - Understanding how the financial statement auditor considers cybersecurity risk.
 - Understanding the role of management and responsibilities of the financial statement auditor related to cybersecurity disclosures
 - Understanding management's approach to cybersecurity risk management
 - Understanding how CPA firms can assist boards of directors in their oversight of cybersecurity risk management.

Canada

Canadian Auditing and Assurance Standards Board (CAASB)

1. Highlights from the May 2018 CAASB meeting include:
 - The Board received an update from the Canadian observer on the American Institute of Certified Public Accountants project to revise its audit evidence standard.
 - The Board received an update on the ongoing discussions with regulators and other stakeholders on issues related to implementing the new auditor reporting standards and preparing a combined U.S. and Canadian auditor's report for 2018 and subsequent years. The Board will continue to discuss these issues at its June 2018 meeting, when it is also expected to approve revisions to the auditor reporting standards addressing the applicability of key audit matter reporting for TSX-listed entities
 - The Board discussed IAASB's project to revise International Standard on Quality Control (ISQC) 1, Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements. The Board agreed that staff would perform limited consultations prior to the release of the IAASB's exposure draft, which is expected in the fall of 2018. These limited consultations will help the Board identify Canadian-specific issues related to the IAASB's proposals.
 - The Board discussed Canadian-specific issues related to its project to consider adopting International Standard on Related Services (ISRS 4400) (Revised), Agreed-Upon Procedures Engagements, including whether:
 - a Canadian standard based on ISRS 4400 would replace Section 9100, Reports on the Results of Applying Specified Auditing Procedures to Financial Information Other than Financial Statements, and Section 9110, Agreed-upon Procedures Regarding Internal Control over Financial Reporting; and
 - an amendment would be needed in the Canadian standard indicating that the Provincial Codes of Professional Conduct applicable in Canada require

practitioners performing agreed-upon procedures engagements to be independent.

The Board intends to continue these discussions as the IAASB's project evolves.

CPA Canada

1. Blockchain technology will provide opportunities to the CPA profession and may even widen the role of CPAs in audit and assurance. That's the view of a new white paper, ["Blockchain Technology and Its Potential Impact on the Audit and Assurance Profession,"](#) published by the Chartered Professional Accountants of Canada (CPA Canada), the American Institute of CPAs (AICPA), and the University of Waterloo Centre for Information Integrity and Information Systems Assurance (UWCISA) in April 2018.
- 2.

Project	Overview of the project and its current status
<p>Quality Control No Update for the period</p>	<p>Objective of the Project: Initial activities in scoping the project will focus on whether there is a need to revisit specific aspects of the quality control standards to enhance clarity and consistency of their application. This may include restructuring ISQC 1, additional requirements or guidance within the standard or additional guidance in support of the standard. Specific aspects within ISQC 1 and ISA 220 being explored include, governance, engagement partner responsibilities, engagement quality control reviews, monitoring, remediation, alternative audit delivery models and specific issues pertaining to small- and medium-sized practices</p> <p>Background and current status: The proposed changes to QC were included in the IAASB Audit Quality ITC. The ITC response period is closed now. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, and developed project proposals for quality control that were presented at the September 2016 IAASB meeting.</p> <p>The IAASB considered the Quality Control Other Working Group's (QCOWG) proposals in respect of:</p> <ul style="list-style-type: none"> • Setting the objective of an engagement quality control (EQC) Revising the definition of an EQC review; • Determining the scope of the engagements subject to an EQC review; and • The execution of an EQC review. <p>At its March 2017 meeting, the IAASB discussed matters to do with the eligibility of the engagement quality control reviewer.</p> <p>QC-Firm Level</p> <p>In June 2017 the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC 1, a result of incorporating a quality management approach (QMA) into ISQC 1, that included a discussion of a working draft of ISQC 1 (Revised) and how the proposals are expected to change firm behaviors. The Board was supportive of the overall direction proposed by the QCTF and emphasized the importance of outreach with a variety of stakeholders to seek input on the practicality of the proposals. The Board also encouraged the QCTF to develop guidance and examples to accompany the revised standard in order to explain the implementation and application of the standard.</p> <p>In its September 2017, the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC1 in relation to documentation of the system of quality management. The Board was supportive of the QCTF's proposals and suggested various refinements. Some of the key proposals were as follow:</p> <ul style="list-style-type: none"> • the proposal to retain the requirement for an EQC review for all audits of financial statements of listed entities, i.e., not only for general purpose financial statements

	<ul style="list-style-type: none"> • the proposals in relation to other engagements for which the firm determines that an EQC review is required (see here for details) • the objective of ISQC 2, including whether it is appropriate to locate the responsibilities of the EQC reviewer in ISQC 2, instead of ISA 220 • the IAASB supports the proposal to remove the reference to “team” from the definition of an EQC reviewer, and instead explain the use of a team in the application material supporting the appointment of the EQC reviewer • the proposed requirements and application material in relation to the eligibility of the EQC reviewer. <p>The Board also discussed the QCTF’s recommendations in relation to EQC reviews that would be incorporated in ISQC 1 and the proposed new standard, ISQC2. The Board confirmed that the purpose of the EQC review is to evaluate the significant judgments made by the engagement team. In addition to various recommendations to further enhance and clarify the various requirements and application material, the Board encouraged the QCTF to improve the robustness of the requirement relating to the scope of the engagements subject to EQC review.</p> <p>Quality Control – Engagement Level</p> <p>In December 2017, The IAASB supported the direction of the proposed changes to ISA 220.4 In particular, the Board supported the proposed changes that emphasize that the engagement partner is responsible and accountable for audit quality. The Board encouraged the ISA 220 Task Force to consider, as it progresses revisions to ISA 220, how the proposed changes will strengthen the performance of quality audits.</p> <p>Quality Control – Firm Level</p> <p>In December 2017, the Board discussed a first read of the proposed exposure draft of ISQC 1 (Revised) 5 and was broadly supportive of the direction of the standard. The Board focused on the scalability of the standard, clarifying the interrelationship of the components, and the appropriate placement of the governance and leadership component. As well as requesting the Task Force to clarify the meaning of deficiencies and major deficiencies, the Board asked that a framework be developed for assessing deficiencies in the system of quality management and requested clarification of how such deficiencies may impact the achievement of the overall objective of the standard. The Board also asked the Task Force to reconsider the threshold for the identification of quality risks and encouraged the Task Force to explore the development of appropriate guidance to accompany the proposed exposure draft that addresses the application of the standard to a spectrum of firms.</p> <p>The Task Force will continue to progress the proposed changes to the standard for a second read of an exposure draft in March 2018.</p>
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<p>Group Audits– ISA 600</p> <p>No Update for the period</p>	<p>Objective of the project: Determining the nature of the IAASB’s response to issues that have been identified, relating to Group Audits, from the ISA Implementation Monitoring project and outreach activities, inspection reports from audit regulators, discussion with NSS and responses to the IAASB’s Work Plan consultation (i.e., whether standard-setting activities are appropriate to address the issues, and if so, whether specific enhancements within ISA 600 or a more holistic approach to the standard would be more appropriate).</p> <p>Background and current status: The IAASB commenced work on one aspect of this project relating to the responsibilities of the engagement partner in circumstances where the engagement partner is not located where the majority of the audit work is performed in December 2014. A Staff Audit Practice Alert on this aspect was published in August 2015. Information gathering on the broader aspects of group audits commenced in March 2015.</p> <p>The issues identified and discussed at the IAASB meetings form part of a combined Invitation to Comment on Enhancing Audit Quality in the public interest which was issued in December 2015 and is open for comments till May 16, 2016. The ITC is now closed. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, presented the results to IAASB at the September 2016 IAASB meeting.</p> <p>In its June 2017 meeting, the IAASB received an update on the activities of the GATF. The IAASB supported the proposal of the GATF to engage more directly with the QCTF, ISA 220 TF and ISA 315 (Revised)3 TF, to help ensure that the requirements in those standards provide appropriate connection points between those projects and ISA 600.4 The IAASB also supported the proposal of the GATF to publish a short project update and asked the GATF to consider topics that are related to standards not under revision, for example, materiality and audit evidence.</p> <p>In December 2017, the Board received a presentation about the interconnections between ISA 600 and other ongoing projects, and how the Task Force is monitoring the activities of the other task forces, providing input and considering implications of changes in the other standards on ISA 600.</p>
<p>Professional Scepticism</p> <p>No Update for the period</p>	<p>Objective of the project: To make recommendations on how to more effectively respond to issues related to professional scepticism.</p> <p>Background and current status: The IAASB commenced its initial information gathering on the topic of professional scepticism in June 2015. The issues identified and discussed at the IAASB meetings are part of the Invitation to Comment on Enhancing Audit Quality in the Public Interest which was issued in December 2015 and is open for comments till May 16, 2016.</p> <p>The working group is comprised of representatives from the IAASB, the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) to explore the topic of professional scepticism, enabling the three independent standard-setting Boards to consider what actions may be appropriate within their collective Standards and other potential outputs to enhance professional scepticism.</p>

	<p>Together with the Quality Control and ISA 600-Group Audits project, this project is part of the Audit Quality Enhancements Coordination Group (AQECG). The AQECG intends to coordinate the various inputs to the invitation to comment developed at the individual working group level, and take a holistic approach as to how the matters are presented in one invitation to comment. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, presented the results to IAASB at the September 2016 IAASB meeting.</p> <p>Subsequent to the December 2016 IAASB meeting, the joint PSWG held a teleconference to discuss matters related to potential changes to the concept/definition of professional scepticism in the ISAs. The March meeting papers are available here.</p> <p>In June 2017 meeting, the IAASB received an update on the activities of the Professional Skepticism Working Group (PSWG) and the Professional Skepticism IAASB Subgroup since the last Board meeting in March 2017. The Board supported the release of a communication to update stakeholders about the actions and current status of the PSWG's work. The Board also discussed the concept of "levels" of professional skepticism and supported the recommendations of the Professional Skepticism IAASB Subgroup not to introduce the concept into the ISAs.</p> <p>The IAASB discussed the Professional Skepticism Subgroup's analysis and related conclusions regarding different "mindset" concepts of professional skepticism and the use of the words in the ISAs in its December 2017. The Board supported the conclusions of the Subgroup, including that the current concept of the attitude of professional skepticism involving a "questioning mind" continues to be appropriate and should be retained within the ISAs. The IAASB Professional Skepticism Subgroup will liaise as needed with the Professional Skepticism Joint Working Group.</p>
<p>Accounting Estimates (ISA 540) and Special Audit Considerations Relevant to Financial Institutions (has update for the period)</p>	<p>Objective of the project: The objective of the financial institutions project is to:</p> <ul style="list-style-type: none"> A. Clarify and enhance the relationship between the banking supervisors and the bank's external auditors; B. Consider and address issues of particular significance in audits of financial institutions; and C. Consider as to whether the issues relating to ISA 540 that have been highlighted as particularly relevant to audits of banks and other financial institutions are more broadly applicable to other entities <p>Background and current status: The ISA Implementation Monitoring project, specific requests from banking and insurance regulators and outreach activities by the ISA 540 Working Group, have identified issues with respect to auditing accounting estimates, in particular in relation to audits of financial institutions. Also, inspection finding reports from audit regulatory bodies highlighted consistent issues with respect to the audit of accounting estimates, including in relation to audits of financial institutions. There are areas where there have been calls for clearer or additional requirements or guidance to enable auditors to appropriately deal with increasingly complex accounting estimates and related disclosures, including obtaining sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements as a whole.</p>

	<p>A draft exposure draft of revised ISA 540 has been developed and is to be deliberated by IAASB with an approved ED expected to be issued for comment in December 2016. The board reviewed the draft in its June 2016 meeting.</p> <p>IAASB expects to complete its deliberation of responses to the exposure draft and resulting proposed changes to ISA 540 (Revised) in 2017 with the revised standard expected to be issued in last quarter of 2017.</p> <p>The IAASB has released the ED ISA 540 for comment in May 2017.</p> <p>The Board received an overview of the comment letters received on proposed ISA 540 (Revised) in its September 2017 meeting. The Board discussed respondents' concerns about the complexity of the proposed ISA and potential difficulties in understanding and applying it in practice, and asked the ISA 540 Task Force to look at ways to restructure the proposed ISA to improve its clarity and readability. The Board also discussed the scalability of the ISA, how risk factors could be taken into account, and how best to structure the response to the assessed risks of material misstatement. The Board highlighted the importance of achieving the right balance between issuing a high-quality standard and the public interest in finalizing the ISA in a timely fashion. The IAASB is holding an additional meeting in October to progress proposed ISA 540 (Revised).</p> <p>The IAASB discussed key issues raised by respondents in relation to the Exposure Draft of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures', including the scalability of the ISA, the use of the term "reasonable," the exercise of professional skepticism and the Task Force's approach to the application material. The IAASB also discussed the Task Force's revisions to requirements and application material based on comments received on the Exposure Draft. The IAASB asked the Task Force to focus on redrafting the application material according to the planned approach with a view to conducting a first read of ISA 540 (Revised)¹ in March 2018, ahead of a targeted approval in June 2018.</p> <p>Update for the period:</p> <p>Aspects of draft ISA 540 (Revised) were discussed at an IAASB teleconference on April 24, 2018 and a final draft of the proposed standard will be presented to the IAASB for approval at its June 2018 meeting.</p>
<p>Data Analytics</p> <p>No Update for the period</p>	<p>Objective of the project: The objective of the Data Analytics Working Group (WG) is to:</p> <ul style="list-style-type: none"> A) Explore emerging developments in audit data analytics; and B) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe. <p>Background and current status: Information gathering on data analytics began in April 2015 and the Data Analytics Working Group will continue with its planned outreach activities in future. The DWAG published its first publication "The IAASB's Work to Explore the Growing Use of Technology in the Audit" in June 2016.</p>

	<p>At the March meeting, the IAASB received a video presentation of a panel discussion among members of the DAWG that was presented at the International Forum of Independent Audit Regulators Inspections Workshop.</p> <p>The Chair of the DAWG provides an update on the project in February 2017 on the IFAC website.</p> <p>In its June 2017 meeting, the IAASB received a presentation of high-level observations from respondents to the IAASB's Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics. It was noted that respondents supported the IAASB in undertaking this work and encouraged continued active participation of the Data Analytics Working Group in other current standard-setting projects of the IAASB underway.</p>
<p>Emerging External Reporting Update for the period No</p>	<p>Objective of the project: The objective of the Integrated Reporting Working Group (IRWG) is to:</p> <ul style="list-style-type: none"> A) Explore emerging developments in integrated reporting and other emerging developments in external reporting; B) Gather further information on the demand for assurance, the scope of the assurance engagement and the key assurance issues; and C) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe. <p>Background and current status: At its September 2014 meeting the Innovation WG proposed, and the IAASB agreed to establish a WG to specifically monitor the developing interest in integrated reporting and the demand for assurance on integrated reports. This includes initial thinking on the nature of such engagements, including the scope of the assurance engagement, the suitability of the criteria, and other matters related to assurance on integrated reports. The Board considered the draft working paper prepared by the IRWG Supporting Credibility and Trust in Emerging Forms of External Reporting in its June 2016.</p> <p>The Discussion Paper was issued in August 2016.</p> <p>In its June 2017 meeting, the IAASB received a presentation about the high-level observations from the comment letters received to the Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting. It was noted that respondents generally supported the development of guidance on how to apply existing international assurance standards rather than developing new standards, and that the IAASB should continue to provide thought leadership on assurance issues and coordinate its work with other relevant organizations.</p> <p>The Board received an update on the project in December 2017. It was noted that the grant agreement with the World Business Council for Sustainable Development (WBCSD) was finalized for the funding of the project and that the Project Proposal and Feedback Statement has been finalized to be published on the IAASB's website. The board also received an update on the plan for developing the framework for the non-authoritative guidance for EER during the</p>

	<p>next year, including the required research to be gathered and the establishment of a Project Advisory Panel (PAP).</p>
<p>Agreed-Upon Procedures</p> <p>No Update for the period</p>	<p>The objective of the project is to:</p> <p>A) Revise International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information in the Clarity format; and</p> <p>B) Consider whether standard-setting or other activities may be appropriate for engagements that use a combination of procedures derived from review, compilation and agreed-upon procedures engagements (also known as "hybrid engagements"), in light of the existing standards that may be applicable to these services in the IAASB's current suite of standards.</p> <p>Background and current status: During consultations on the IAASB's 2015-2019 Strategy and the related 2015-2016 Work Plan, many stakeholders expressed the need to revise ISRS 4400 to meet the growing demand for agreed-upon procedure engagements. In response to the stakeholders' comments, the IAASB established a working group to explore issues involving agreed-upon procedure engagements. The issues identified and discussed at the IAASB meetings will be used to revise ISRS 4400 and possibly develop new standard(s) or guidance that would address engagements where there is a combination of agreed-upon procedures and assurance.</p> <p>The Agreed-Upon Procedures (AUP) Working Group presented a first draft of its Discussion Paper, <i>Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's Standards</i>, to the Board in June 2016. The IAASB provided the AUP Working Group with input to enhance the Discussion Paper and suggested that the paper pose a question to explore whether the IAASB should develop guidance on multi-scope engagements. The AUP Working Group will present a revised draft of the Discussion Paper at the September 2016 IAASB meeting.</p> <p>In its September 2017 meeting, the Board discussed the feedback received on the Discussion Paper and approved a standard-setting project proposal to revise ISRS 4400, subject to clarifications around the use of judgment, independence, restriction of the report of factual findings and required documentation.</p>
<p>ISA 315 (Revised) (has update for the period)</p>	<p>The tentative objectives of the projects at this stage are:</p> <p>A) to address the issues that have been identified by the ISA Implementation Monitoring project.</p> <p>B) Possible changes that may be necessary to ISA 315 (Revised) to enhance the requirements and guidance for evolving environmental influences (such as changing internal control frameworks and more advanced technology systems being utilized by both management and auditors).</p> <p>C) In its June 2016 meeting, the IAASB directed the ISA 315 (Revised) Working Group to present a project proposal for the IAASB's consideration at its September 2016 meeting to commence standard-setting activities.</p>

	<p>The project proposal was presented and approved in the IAASB's September 2016 meeting.</p> <p>Since the December 2016 IAASB meeting, the task force has had one physical meeting and two teleconferences to develop the March meeting papers.</p> <p>In September 2017, the ISA 315 Task Force presented proposed changes to the requirements in ISA 315 (Revised) to address identified issues relating to understanding the entity and its environment, including the applicable financial reporting framework, and internal control, including obtaining an understanding of the five components of internal control. The Board broadly supported the proposals, but asked for consideration about some of the proposed changes to the definitions, as well as the perceived focus on controls in obtaining the necessary understanding of the components of internal control. With regard to proposed changes to the identification and assessment of inherent and control risk, the Board supported a separate assessment of inherent and control risk, but asked that the ISA 315 Task Force further consider how this works practically and highlighted that further clarification is needed relating to the assessment of control risk.</p> <p>In December 2017, the Board discussed a first read of proposed changes to the requirements and application material of ISA 315 (Revised)². The Board broadly supported the proposals, but asked for further consideration by the Task Force on various matters, including aspects of the definitions of 'controls' and 'relevant assertions,' and regarding the introduction of the term 'business model' and its interactions with current requirements of the standard. The Board also questioned the use of 'sufficient and appropriate' as it relates to potential confusion with "sufficient appropriate audit evidence" and whether a change may have unintended consequences if this concept were to be introduced as proposed. The Board encouraged further consideration about how fraud can be included as a qualitative inherent risk factor, taking into account how this would link to the fraud risk factors in ISA 240.3 The Board continued to be supportive of the introduction of "spectrum of risk" but thought the spectrum of risk could be better emphasized and explained earlier in the standard.</p> <p>The Board recognized the need for further consideration about scalability, but agreed that scalability should be presented through the requirements and application material in context of the auditor's consideration of risk thereby eliminating the need for "considerations for smaller entities."</p> <p>The Task Force will continue to progress the proposed changes to the standard for a second read of an exposure draft in March 2018.</p> <p>Update for the period</p> <p>Aspects of draft ISA 315 (Revised) were discussed at an IAASB teleconference on May 22, 2018, and the ISA 315 Task Force will continue to progress the proposed changes to the proposed standard for approval as an exposure draft at the June 2018 IAASB meeting.</p>
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NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 25 May 2018

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

FROM: Peyman Momenan

SUBJECT: Domestic Update

Introduction

1. This Update summarises the significant news from Financial Market Authority, New Zealand Institute of Chartered Accountants and other organisations for the Board's information, for the period April and May 2018.

Financial Markets Authority (FMA)

1. There has been no significant developments relating to audit and assurance to report in the period.

The New Zealand Institute of Chartered Accountants

1. CAANZ has published the following two articles with audit implications:
 - [Navigating AI](#)
 - [In a world of fake news, who can you trust?](#)

CPA Australia

1. There has been no significant developments relating to audit and assurance to report in the period.

The Institute of Directors (IoD)

1. IoD published an article to introduce [Blockchain](#) to directors.

Sustainability Matters

1. "The Natural Capital Coalition has released Connecting Finance and Natural Capital: A Supplement to the Natural Capital Protocol in April 2018, the first major supplement to the Natural Capital Protocol. "We were hosted in Hong Kong by the Hong Kong Institute of Certified Public Accountants and had representation from across the region attending the event." The Supplement has been developed alongside leading financial institutions by the Coalition, the Natural Capital Finance Alliance (NCFA) and the Dutch Association of Investors for Sustainable Development (VBDO). "It focuses on three key sub-sectors; banking, investment and insurance, and enables financial institutions to better understand the natural capital risks and opportunities associated

with their direct operations, and their investment, lending and insurance portfolios.
To really understand how this contributes to the natural capital narrative.

To: NZAuASB members
From: Rowena Sinclair
Date: 24th May 2018
Re: Academic update 2018-3

This third update for the year focuses on recent research on Key Audit Matters (KAM). Rather than waiting for the lead publication time of academic journals, which can run into years, academics can share their current research via the Social Science Research Network (SSRN)¹. The papers are working papers that can go through several iterations before they are ultimately published in a journal. For Example: Li (2017) that was covered in Academic Update 2018-1 has been updated, new authors added, and uploaded to SSRN as Li, Hay & Lau (2018). All the papers covered in this Academic Update were accessed via SSRN.

(1) NEW ZEALAND KAM RESEARCH

Subsequent to Li (2017) it is great to see further research being undertaken on the impact of the first year of reporting KAMs in New Zealand. Almulla & Bradbury's (2018)² study utilised as a starting basis the joint report produced by the External Reporting Board and the Financial Markets Authority (2017). Almulla & Bradbury's (2018)'s New Zealand study of 132 companies examined the impact of KAMs on audit effort and audit quality.

As a contrast to Li (2017) they found *"no evidence that the first-time reporting of KAMs results in higher audit fees"* (Almulla & Bradbury, 2018, page 20). In fact, they go further and suggest that *"clients may be unwilling to pay for KAM disclosures and auditors may be required to absorb any additional costs in profit margins"* (Almulla & Bradbury, 2018, page 20).

(2) ARCHIVAL STUDIES on KAM

Gutierrez, Minutti-Meza, Tatum & Vulcheva (2018)'s United Kingdom study investigated whether there was an increase in the decision usefulness of the auditor's report with the introduction of KAMs. They investigated 338 companies on the London Stock Exchange (LSE) and 525 companies on the LSE's Alternative Investment Market (AIM). Overall, their study found that the *"evidence is consistent with the UK expanded auditor's report not providing incremental information to investors"* (Gutierrez, et al., 2018, page i).

Bédard, Gonthier-Besacier & Schallt's (2018) longitudinal French study from when "justifications of assessments" (JOAs), similar to KAMs³, were introduced in 2003. Their study considered the impact of JOAs on the market. In the short term (2002-2004) they found no significant market reaction to JOAs disclosure. However, there was a significant increase in when the audit report was finalised and audit fees for the first year, but not in subsequent years. In relation to audit quality subsequent JOAs were associated with lower financial statement quality. The authors consider that *"Such a result is consistent with the conjecture that JOAs refer to specific accounting information that is more difficult to audit and more subject to measurement error and bias"* (Bédard et al., 2018, page 4).

¹ SSRN is devoted to the rapid worldwide dissemination of research and is composed of a number of specialized research networks [see <https://www.ssrn.com/en/>].

² Thanks to Professor Mike Bradbury for sharing the results of their study.

³ *"KAMs are slightly different from JOAs (e.g., broader type of matters, explanation as to why the matter is important, and way the risks were addressed)"* (Bédard, et al, 2018, page 41).

(3) EXPERIMENTAL STUDIES on KAM

Ratzinger-Sakel & Thesis⁴ (2018)'s recent German experiment used seventy-three experienced auditors from two Big 4 German audit firms to consider how KAM affected auditor judgement. Their study found that:

auditors exhibit significantly less sceptical judgment when KAM consideration is present than when KAM consideration is absent. This implies that, when considering KAM, auditors are more willing to acquiesce to their clients' desired accounting treatments due to moral licensing. Furthermore, we find that auditors' reaction to our client pressure manipulation is rather weak. If at all, auditors seem to become slightly more skeptical in their judgments and actions when client pressure is high, which might suggest that a reasonableness constraint has been triggered (Ratzinger-Sakel & Thesis, 2018, page ii)

Asbahr & Ruhnke (2017)'s experiment used one hundred and twenty-two experienced German Big 4 auditors to consider whether KAM influences auditors' judgements on aggressively pro-client biased accounting estimates. Their study found that in relation to KAMs:

the probability of insisting on an adjustment as well as the amount of an adjustment is significantly lower for subjects with KAM reporting requirements (Asbahr & Ruhnke, 2017, page 22).

Secondly and contrary to their expectations they found *"that implicit client pressure does not manifest itself in detrimental effects on auditors' judgment"* (Asbahr & Ruhnke, 2017, page 6).

Siros, Bedard & Bera (2017) conducted a Canadian experiment that examined the effect of communicating KAM to financial statement users using eye-tracking technology. Users were ninety-eight graduate accounting students who played the role of junior loan officers. Their experiment found that:

the results confirm the attention directing role of KAMs, particularly that KAMs do not appear to act as substitutes for reading the KAM-related disclosures, as feared by standard setters. (Siros et al, 2017, page 5)

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⁴ Thank you to Dr Thesis for allowing the inclusion of their findings into this academic update.