


## Board Meeting Agenda

2 December 2021  
9:15 am to 5.00 pm

Apologies:

Est. Time	Item	Topic	Objective		Page
<b>A: NON-PUBLIC SESSION</b>					
<b>B: PUBLIC SESSION</b>					
11.00 am	2	<b><u>Non-Assurance Services (Late papers)</u></b>			
	2.5	Analysis of submissions received (Late)	Consider	Paper	
	2.6	Submissions received			
	2.6.1	Baker Tilly Staples Rodway	Note	Paper	3
	2.6.2	BDO	Note	Paper	6
	2.6.3	CAANZ	Note	Paper	13
	2.6.4	Deloitte	Note	Paper	21
	2.6.5	EYNZ (and from EY Aus)	Note	Paper	25
	2.6.6	FMA	Note	Paper	31
	2.6.7	KPMG	Note	Paper	37
	2.6.8	OAG	Note	Paper	39
	2.6.9	PwC	Note	Paper	50
11.15 am	<i>Morning tea</i>				
11.30 am	3	<b><u>Less Complex Entities Submission</u></b>			
	3.1	Board meeting summary paper	Note	Paper	59
	3.2	Analysis of submissions	Consider	Paper	61
	3.3	Draft submission	Consider	Paper	71
	3.4	Submissions received			
	3.4A	Sole Practitioner submission	Note	Paper	89
	3.4B	CAANZ comments (confidential)			
	3.4C	AFAANZ Submission	Note	Paper	91
12.45 noon	4	<b><u>Meet with Lyn Provost</u></b>			
	4.1	IAASB update	Note	Verbal	
1:30 pm	<i>Lunch</i>				
2:15 pm	5	<b><u>NZAuASB 2021/22 implementation plan</u></b>			
	5.1	Board meeting summary paper	Note	Paper	128
	5.2	21/22 implementation plan	Consider	Paper	131
	5.3	21/26 action plan	Note	Paper	157
2.45 pm	6	<b><u>FMA audit reviews (confidential)</u></b>			
3.30 pm	<i>Afternoon tea</i>				
3.45 pm	7	<b><u>Due process consideration</u></b>			
	7.1	Board meeting summary paper	Note	Paper	176
	7.2		Note	Paper	178

Est. Time	Item	Topic	Objective		Page
		EG Au2 Overview of Auditing and Assurance Standard Setting Process			
4.00pm	<b>8</b> 8.1	<b><u>Adjustments for inflationary changes</u></b> Board meeting summary paper	Note	Paper	190
4.20 pm	<b>9</b> 9.1 9.2	<b><u>Convergence and Harmonisation policy</u></b> Board meeting summary paper Final policy	Note Note	Paper Paper	194 195
4.30 pm	<b>10</b> 10.1 10.2	<b><u>Environmental scanning</u></b> International Update Domestic Update	Note Note	Paper Paper	207 225
<b>C: NON-PUBLIC SESSION</b>					
4.50 pm		<b><u>Closing</u></b> 			

Next meeting: 9 February 2022, Virtual

20 October 2021

Robert Buchanan  
Chair, NZ Auditing and Assurance Board  
External Reporting Board  
**WELLINGTON 6142**

Via XRB website

Dear Robert

***SUBMISSION ON PROPOSED AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: NON-ASSURANCE SERVICES***

**Overall Comments**

Thank you for the opportunity to comment on the proposed amendments to Professional and Ethical Standard 1: *Non-Assurance Services* (NZAuASB ED 2021-4, "the ED"). We support the proposal to adopt the International Ethics Standards Board for Accountant (IESBA)'s revisions in relation to non-assurance services as we agree that auditor independence, in both fact and appearance, is a cornerstone of the auditing profession and that it is essential to maintaining trust and confidence in financial reporting and the audit process. We are supportive of the IESBA's proposed revisions, including:

- Enhanced focus on the conceptual framework in determining the appropriateness of providing non-assurance services to audit clients
- A prohibition on the provision of a non-assurance service that might create a self-review threat to an audit client that is a public interest entity (PIE)
- Stricter prohibitions on certain types of non-assurance services to audit clients
- The elimination of materiality as a factor in determining which non-assurance services can be provided to PIE audit clients
- New provisions to enable more robust engagement between firms and those charged with governance of PIE audit clients about independence matters relating to any non-assurance services provided.

**Comments on NZ-specific proposals**

We consider that international alignment of professional and ethical standards and is important. However, we support the additional provisions that the NZAuASB is proposing to include in the New Zealand Code of Ethics for Assurance Practitioners (PES 1), including those that would further restrict the tax services that could be provided to audit clients that are PIEs.

In our view, including specific prohibitions to this effect is in line with the provisions of the conceptual framework, in particular the need to consider whether any self-review or advocacy threats are present. We agree that, in certain situations such as when providing tax services to PIE clients, there are no appropriate safeguards that could be applied to reduce such threats to an appropriate level.

We have included our responses to the specific questions raised in the Invitation to Comment (ITC) in Appendix 1. Information about the Baker Tilly Staples Rodway network is provided in Appendix 2.

We hope the comments contained in our submission are useful. If you would like to discuss any of these comments please contact Nicola Hankinson on [nicola.hankinson@bakertillysr.nz](mailto:nicola.hankinson@bakertillysr.nz)

Kind regards



**David Searle**  
Chair, Baker Tilly Staples Rodway New Zealand

## Appendix 1: Responses to specific questions in the Invitation to Comment

### (i) New Zealand specific changes to tax advisory and tax planning services

Question 1 Do you agree that the provision of tax advisory and tax planning services to an audit client that is a PIE should be prohibited? (Refer NZ R604.15 – NZ 604.15 A1)

Yes.

Question 2. Do you foresee any unintended consequences of this prohibition?

No.

Question 3. Do you agree that advising an audit client in their tax return preparation or any adjustments arising therefrom is a form of tax advisory services? As such, consistent with the addition of NZ R604.15 such services would be prohibited for PIEs. (Refer NZ 604.11 A1)

Yes.

Question 4. Are there any other tax services contemplated by proposed subsection 604 for which you consider the requirements should be further strengthened and, if so, why?

No.

### (ii) Any other Non-assurance services

Question 5. The NZAuASB has not identified any further aspects of the IESBA's provisions that need to be strengthened in New Zealand. We are, however, keen to hear whether stakeholders consider there is a need to further strengthen any specific provisions.

No.

### (iii) Audit-related services

Question 6. Do you agree that additional services performed by the audit firm will generally not create a self-review threat to the firm's independence when the services are related to the audit engagement?

Yes.

Question 7. Do you agree that the examples listed would not generally create a self-review threat to independence? Are there other types of services, that would generally not create a self-review threat to independence, that you consider need to be included as examples? (Refer NZ 600.14 A1)

*Yes, we agree that these examples would not generally create a self-review threat. We have not identified any additional types of services that we consider would not create a self-review threat.*

Question 8. Do you agree that the additional application material emphasising the need to apply the conceptual framework to identify, evaluate and address threats to independence, other than the self-review threat, is helpful to ensure diligent application of the conceptual framework? (Refer NZ 600.14 A1)

*Yes, we consider it important to emphasise that all such decisions should be made in line with the provisions of the conceptual framework.*

Question 9. Do you consider additional requirements or application material is needed in relation to audit-related services, to address perceptions of auditor independence? If yes, please provide details.

### (iv) Effective Date

Question 10. For engagements entered into before 15 December 2022, for which work has already commenced, the transitional provision provides that the firm may continue the engagement under the extant provisions of the Professional and Ethical Standard 1 for up to 12 months. Do you agree with the transitional provision? If not, please explain why not and what alternative you propose.

*Yes, we consider these transitional provisions to be appropriate.*

**Appendix 2: About Baker Tilly Staples Rodway**

Baker Tilly Staples Rodway is an association of independent accounting firms, located in Auckland, Waikato, Tauranga, Hawke's Bay, Taranaki, Wellington and Christchurch. Baker Tilly Staples Rodway is a full-service accounting and business advisory firm with a strong reputation for providing quality advice to privately owned, corporate and public sector organisations.

Baker Tilly Staples Rodway provides cross-border services through our international affiliated firms, including Pitcher Partners in Australia and the Baker Tilly International network.

29 October 2021

Robert Buchanan  
Chair  
New Zealand Auditing and Assurance Standards Board  
PO Box 11250  
Manners St Central  
Wellington 6142  
New Zealand

Submitted electronically via [www.xrb.govt.nz](http://www.xrb.govt.nz)

Dear Robert

**EXPOSURE DRAFT NZAuASB 2021-4 PROPOSED AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: NON-ASSURANCE SERVICES**

1. The purpose of this submission is to provide the New Zealand Auditing and Assurance Standards Board (“NZAuASB”) with BDO’s comments on Exposure Draft NZAuASB 2021-4 *Proposed Amendments to Professional and Ethical Standard 1: Non-Assurance Services* (“the Exposure Draft”). More information on BDO is provided in Appendix A to this letter. Thank you for the opportunity to comment on the Exposure Draft.
2. BDO considers that high audit quality is important to New Zealand’s capital markets and those parties, such as businesses, lenders and investors, that utilise audited financial statements. For that reason, BDO considers that the professional and ethical standards that underlie the conduct of the auditing profession in New Zealand should be aligned with international standards to the greatest extent possible.
3. Further, BDO notes that auditor independence is fundamental to public trust in the audit profession and to the profession achieving high audit quality.
4. For these reasons, BDO supports the proposed changes in the Exposure Draft that mirror the changes made internationally by the International Ethics Standards Board for Accountants to the International Code of Ethics for Professional Accountants. We are particularly supportive of the proposals to:
  - a. Prohibit the provision of non-assurance services that might create a self-review threat in relation to an audit client that is a public interest entity (“PIE”)
  - b. Eliminate materiality as a factor in determining the permissibility of providing a non-assurance service to an audit client that is a PIE
  - c. Enable more robust engagement between firms and those charged with governance of PIE audit clients about independence matters relating to non-assurance services.
5. Although BDO considers that the professional and ethical standards that underlie the conduct of the auditing profession in New Zealand should be aligned with international standards to the greatest extent possible, we acknowledge that there are limited circumstances in which it is

necessary for the standards adopted in New Zealand to deviate from international standards. We consider that such circumstances ordinarily only arise due to specific New Zealand legislative requirements, or because there is compelling evidence of a fundamental difference between the New Zealand business environment and the business environment assumed by international standard setters.

6. We note that the NZAuASB's proposal to limit the provision of non-assurance services in New Zealand to a greater extent than the provision of those services is limited internationally is based on research undertaken in New Zealand. Although we support research of this nature being undertaken, we do not consider that the research undertaken to date is sufficient to justify a deviation from international requirements and consequently do not support these proposals.
7. We note that the NZAuASB proposes the inclusion of additional application material in PES 1 *Code of Ethics for Assurance Practitioners* ("PES 1") on the types of work that typically do not create a self-review threat to independence when such work is related to an audit or review engagement. Although we consider that such information might in some circumstances be useful, we do not consider that this is one of the limited circumstances in which it is necessary for the standards adopted in New Zealand to deviate from international standards. Consequently, we do not support this proposal.
8. Our response to each of the questions posed in the Invitation to Comment that accompanies the Exposure Draft is provided in Appendix B to this letter.
9. We acknowledge that this submission may be made publicly available.
10. If you require further information or would like to discuss any aspect of our submission further, please do not hesitate to contact either of the authors.

Yours sincerely  
**BDO New Zealand**



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**APPENDIX A:  
INFORMATION ON BDO**

1. BDO is a network of eleven independently owned accounting practices, with sixteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency.
3. BDO in New Zealand has 93 partners and over 850 staff.
4. Three BDO firms in New Zealand (BDO Auckland, BDO Christchurch and BDO Wellington) are registered audit firms and those firms have eleven licensed auditors.
5. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 91,000 people working out of 1,658 offices across 167 countries and territories.



**APPENDIX B:  
RESPONSES TO QUESTIONS POSED IN THE INVITATION TO COMMENT**

1. Our response to each of the questions posed in the Invitation to Comment is provided in the table below:

Question	BDO response
<i>New Zealand specific changes to tax advisory and tax planning services</i>	
<p><i>Question 1:</i></p> <p>Do you agree that the provision of tax advisory and tax planning services to an audit client that is a PIE should be prohibited? (Refer NZ R604.15 - NZ 604.15 A1)</p>	<p>As outlined more fully above, we consider that the professional and ethical standards that underlie the conduct of the auditing profession in New Zealand should be aligned with international standards to the greatest extent possible and should only deviate from those standards in limited circumstances, such as where necessitated by specific New Zealand legislative requirements, or where there is compelling evidence of a fundamental difference between the New Zealand business environment and the business environment assumed by international standard setters.</p> <p>We note that the NZAuASB’s proposal to limit these services is based on a survey undertaken by External Reporting Board staff that received 115 responses. Although we consider that research of this nature can be a useful input to standard setting, we do not consider that, in this instance, the survey results provide evidence of the limited circumstances in which deviation from international standards is warranted having been met. Consequently, we do not agree with the proposed prohibition of these services.</p>
<p><i>Question 2:</i></p> <p>Do you foresee any unintended consequences of this prohibition?</p>	<p>As outlined above, we consider that deviation from international standards is only warranted in very limited circumstances. We in part take this view because international standard setting follows a robust process, involving extensive consultation and committee consideration, that is in part designed to ensure the internal consistency of promulgated standards. Where New Zealand specific changes are made to international standards, the following risks consequently arise:</p> <ul style="list-style-type: none"> <li>• The risk that the New Zealand specific requirements will not be entirely consistent with all other requirements of the standard</li> </ul>

Question	BDO response
	<ul style="list-style-type: none"> <li>• The risk of inconsistent requirements being applied by auditors in group audits across multiple jurisdictions</li> <li>• The risk that New Zealand specific requirements will be inconsistent with future changes to the international standard.</li> </ul> <p>For these reasons, and the reasons outlined in our response to question one, we do not support the proposed inclusion of New Zealand specific changes in relation to tax advisory and tax planning services.</p>
<p><i>Question 3:</i></p> <p>Do you agree that advising an audit client in their tax return preparation or any adjustments arising therefrom is a form of tax advisory services? As such, consistent with the addition of NZ R604.15 such services would be prohibited for PIEs. (Refer NZ 604.11 A1)</p>	<p>We do agree that advising an audit client in their tax return preparation or any adjustments arising therefrom is a form of tax advisory services. However, for the reasons outlined in our responses to questions one and two, we do not support the proposed inclusion of New Zealand specific changes in relation to tax advisory and tax planning services.</p>
<p><i>Question 4:</i></p> <p>Are there any other tax services contemplated by proposed subsection 604 for which you consider the requirements should be further strengthened and, if so, why?</p>	<p>For the reasons outlined in our responses to questions one and two, we do not support the proposed inclusion of New Zealand specific changes in relation to tax advisory and tax planning services.</p>
<p><i>Any other non-assurance services</i></p>	
<p><i>Question 5:</i></p> <p>The NZAuASB has not identified any further aspects of the IESBA’s provisions that need to be strengthened in New Zealand. We are, however, keen to hear whether stakeholders consider there is a need to further strengthen any specific provisions.</p>	<p>As outlined more fully above, we consider that the professional and ethical standards that underlie the conduct of the auditing profession in New Zealand should be aligned with international standards to the greatest extent possible and should only deviate from those standards in limited circumstances, such as where necessitated by specific New Zealand legislative requirements, or where there is compelling evidence of a fundamental difference between the New Zealand business environment and the business environment assumed by international standard setters. We do not consider that such circumstances exist in relation to the Exposure Draft and do not support the NZAuASB’s New Zealand specific proposals.</p>

Question	BDO response
<i>Audit-related services</i>	
<p><b>Question 6:</b></p> <p>Do you agree that additional services performed by the audit firm will generally not create a self-review threat to the firm’s independence when the services are related to the audit engagement?</p>	<p>We do agree that additional services performed by the audit firm will generally not create a self-review threat to the firm’s independence when the services are related to the audit engagement.</p> <p>We note that the NZAuASB proposes the inclusion of additional application material in PES 1 on the types of work that typically do not create a self-review threat to independence when such work is related to an audit or review engagement. Although we consider that such information might in some circumstances be useful, we do not consider that this is one of the limited circumstances in which it is necessary for the standards adopted in New Zealand to deviate from international standards. In addition, as outlined in our response to question two, we consider that there are risks associated with including New Zealand specific requirements in professional and ethical standards. For these reasons, we do not support this proposal.</p>
<p><b>Question 7:</b></p> <p>Do you agree that the examples listed would not generally create a self-review threat to independence? Are there other types of services, that would generally not create a self-review threat to independence, that you consider need to be included as examples? (Refer NZ 600.14 A1)</p>	<p>We do agree that the examples listed would ordinarily not create a self-review threat to independence. However, for the reasons outlined in our response to question six, we do not support the proposed inclusion of this guidance.</p>
<p><b>Question 8:</b></p> <p>Do you agree that the additional application material emphasising the need to apply the conceptual framework to identify, evaluate and address threats to independence, other than the self-review threat, is helpful to ensure diligent application of the conceptual framework? (Refer NZ 600.14 A1)</p>	<p>We consider that the requirement to apply the conceptual framework to identify, evaluate and address threats to independence already exists (in proposed paragraph R600 in the general requirements). We do not consider that reiteration is required. In addition, as noted in our responses to questions six and seven, we do not consider that the proposed New Zealand specific paragraph to which this question relates should be included in PES 1.</p>

Question	BDO response
<p><i>Question 9:</i></p> <p>Do you consider additional requirements or application material is needed in relation to audit-related services, to address perceptions of auditor independence? If yes, please provide details.</p>	<p>As outlined more fully above, we consider that the professional and ethical standards that underlie the conduct of the auditing profession in New Zealand should be aligned with international standards to the greatest extent possible and should only deviate from those standards in limited circumstances, such as where necessitated by specific New Zealand legislative requirements, or where there is compelling evidence of a fundamental difference between the New Zealand business environment and the business environment assumed by international standard setters. We do not consider that such circumstances exist in relation to audit-related services and consequently do not think that any New Zealand specific guidance is required in relation to this matter.</p>
<p><i>Effective Date</i></p>	
<p><i>Question 10:</i></p> <p>For engagements entered into before 15 December 2022, for which work has already commenced, the transitional provision provides that the firm may continue the engagement under the extant provisions of the Professional and Ethical Standard 1 for up to 12 months. Do you agree with the transitional provision? If not, please explain why not and what alternative you propose.</p>	<p>We agree with the proposed transitional provision.</p>

29 October 2021

Robert Buchanan  
Chair  
New Zealand Auditing and Assurance Standards Board  
PO Box 11250  
Manners St Central  
Wellington 6142

Via website: <https://xrb.govt.nz/assurance-standards/standards-in-development/open-for-comment/nzauasb-ed-20214>

Dear Robert

### Invitation to Comment: Exposure Draft NZAuASB 2021-4 Proposed Amendments to Professional and Ethical Standard 1: Non-Assurance Services

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the Invitation to Comment (“**the ITC**”) on the Exposure Draft (“**the ED**”) to revise the non-assurance services (“**NAS**”) provisions of PES 1 *Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (“**PES 1**”).

We support the NZAuASB’s proposals to incorporate into PES 1 the revised NAS provisions in the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (“**the IESBA Code**”). The package of new measures in relation to NAS is a major step forward in strengthening auditor independence. As it relates to NAS, auditor independence is a key consideration when it comes to securing public trust and confidence in audit. In our view, the following key aspects of the package of amendments being brought into PES 1 are particularly important:

- A prohibition on the provision of a NAS that might create a self-review threat to an audit client that is a public interest entity (“**PIE**”).
- Stricter prohibitions on certain types of NAS to audit clients.
- Elimination of materiality as a factor in determining NAS permissibility to PIE audit clients.
- New provisions to enable more robust engagement between firms and those charged with governance of PIE audit clients about independence matters relating to NAS.

PES 1 already establishes comprehensive independence standards, with a PIE definition that is further reaching than the international equivalent. But there is also a need for these provisions to be revisited to make sure they are consistent with evolving expectations and that both the profession and its stakeholders, including investors, understand what they mean. The revised IESBA Code substantially raises the bar on auditor independence with a far-reaching prohibition on audit firms from providing a NAS to an audit client that is a PIE that *might* create a self-review threat (i.e., even if there is only a mere possibility of a self-review threat occurring).

We commend the NZAuASB for considering stakeholder perceptions, which will naturally come to the fore as the IESBA Code and PES 1 are strengthened over time. Robust, evidence-based standards setting and sound, compelling bases for conclusion are paramount to achieving confidence and buy-in from investors and those applying the standards, particularly when it comes to addressing perceptions and when departing from the established international standard.

A survey appears to represent the main evidence underlying the Board's views on user perceptions which have led to proposed local amendments, with extensive references throughout the ITC. However, the survey does not appear to be robust enough to represent meaningful evidence or help understand New Zealand investor perceptions. We support the NZAuASB's efforts to address perceptions and recognise that, in some instances, the New Zealand context and perceptions will demand a unique approach. However, maintaining confidence in the standards and institution of the NZAuASB demands much more robust evidence gathering and deliberation to meet the compelling reason test.

**Appendix A** provides our responses to the specific questions raised in the ITC and **Appendix B** provides more information about CA ANZ. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact Zowie Pateman, Deputy Leader – Reporting and Assurance, at [Zowie.Pateman@charteredaccountantsanz.com](mailto:Zowie.Pateman@charteredaccountantsanz.com)

Yours sincerely

**Peter Vial FCA**  
Group Executive  
New Zealand and the Pacific

**Amir Ghandar FCA**  
Assurance and Reporting Leader  
Advocacy and Professional Standing

# Appendix A

## Responses to specific questions

### New Zealand specific changes to tax advisory and tax planning services

#### 1. Do you agree that the provision of tax advisory and tax planning services to an audit client that is a PIE should be prohibited? (Refer NZ R604.15 – NZ 604.15 A1)

[Deleted text struck through, new text underlined]

~~R604.15 A firm or a network firm shall not provide tax advisory and tax planning services to an audit client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14, R600.16, 604.12 A2).~~

NZR604.15 A firm or a network firm shall not provide tax advisory and tax planning services to an audit or review client that is a public interest entity.

NZ604.15 A1 The provision of tax advisory and tax planning services to an audit or review client that is a public interest entity creates a threat to independence that cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

NZ604.5 A1 Tax return preparation services include:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardised forms) required to be submitted to the applicable tax authorities.
- ~~Advising on the tax return treatment of past transactions.~~
- Responding on behalf of the audit or review client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

NZ604.12 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services will not create a self-review threat if such services include the extent to which the tax advisory or tax planning services:

- (a) Are supported by a tax authority or other precedent;
- (b) Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or
- (c) Have a basis in tax law that the firm is confident is likely to prevail.

We support an evidence-based approach to strengthening and clarifying the audit independence standards. At this stage we do not consider that the NZAuASB has sufficiently developed a user-needs case that there is a compelling reason to modify the revised IESBA Code for application in New Zealand for the reasons that follow.

- While we welcome the survey that the XRB staff undertook in April 2021 in regard to NAS, overall, the survey does not appear to be robust enough to be considered meaningful evidence in relation to the decisions reflected in the ED including:
  - The total sample size of 115 is highly insufficient to be able to understand what, if any, population these results are representative of, let alone to draw conclusions about views of investors or the general public in New Zealand.
  - The late addition of the screening question on the role of the respondent means there is only confirmation that 16 of the respondents were investors/shareholders.

- Only 86 respondents answered question 3 (29 skipped) that asked about the effect on trust in the financial statements when the audit firm provides certain NAS. Furthermore, it was not clear whether the 16 respondents who had self-identified as investors/shareholders had completed this question.
- We would recommend a much more robust survey and broader review of research literature is required to meaningfully add to understanding of investor perceptions regarding NAS. This would include:
  - Working with academics focused on audit in New Zealand to develop an understanding of the existing literature. New Zealand has a rich community of internationally renowned audit researchers, and it was not clear there had been any engagement with this cohort in developing the proposals.
  - Ensuring surveys are based on a sample that allows for determination of the degree to which it is representative of the underlying population. For instance, at least providing a 95% confidence level and controlling uncertainty to within a 5% confidence interval.
  - Targeting participants in a way that allows some degree of verification as to whether they are investors (i.e., beyond self-identification).
  - Surveying a basic level of demographic information such as investment type (e.g., share market, managed funds, KiwiSaver etc) and quantum of investment.
- We are aware of the debate about prohibitions versus principled standards, including the views of some audit oversight bodies toward more prescriptive standards that are more conducive to efficient enforcement and differing views among other stakeholders. These matters were explored in-depth internationally by the IESBA in developing amendments to the IESBA Code which significantly strengthen the relevant requirements and application material. Neither the survey nor other evidence provided appears to indicate that either perceptions or regulatory outcomes in New Zealand are different or call for a different approach as has been proposed.
- In line with the revised IESBA Code, which was informed by extensive research and global outreach, the ED also proposes:
  - A prohibition on the provision of a NAS to an audit or review client that is a PIE where that service might create a self-review threat to the firm's independence, regardless of materiality (ED par. R600.16).
  - A prohibition on the provision of a tax service to an audit or review client (PIE or non-PIE) if the service relates to marketing, planning, or opining in favour of a tax treatment that was initially recommended, directly or indirectly, by the firm/network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail (ED par. R604.4). The IESBA reaffirmed and clarified its position on this in par. 114 of the Basis for Conclusions<sup>1</sup> that, while the word "advocating" is not used, this prohibits the provision of tax services or transactions that involve advocating a particular tax treatment or transaction that the firm had initially developed for which the significant purpose is tax avoidance.
  - New provisions to strengthen and improve the quality of firm communication with those charged with governance about NAS-related matters, including the firm's independence (ED par. 600.19 A1 – R600.24).
  - Strengthened provisions to assist firms in addressing threats to independence that are created by the provision of NAS to audit or review clients, including new application material in relation to situations where a safeguard is not available (ED par. 600.18 A1 – 600.18 A4).

<sup>1</sup> <https://www.ifac.org/system/files/publications/files/Basis-for-Conclusions-Non-Assurance-Services.pdf>



- In the extant PES 1 there are existing prohibitions on the:
  - Preparation of tax calculations of current and deferred tax liabilities (or assets) for an audit or review client that is a PIE (extant par. R604.6, ED par. R604.10).
  - Provision of tax advisory or tax planning services to any audit or review client (PIE or non-PIE) when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements, and the audit or review team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework (extant par. 604.8, ED par. R604.13).

In our view, the IESBA Code amendments and the existing prohibitions serve to address the threats that proposed paragraph NZR604.15 is ostensibly designed for.

## 2. Do you foresee any unintended consequences of this prohibition?

We believe there could be a number of unintended consequences as follows:

- The IESBA Code has been developed holistically, with a high degree of interconnectivity including between the principles and more prescriptive aspects. Substantial work, outreach and consultation has been undertaken by the IESBA to land on the approach taken with respect to tax advisory and tax planning services. As already experienced in some of the later discussions amongst the NZAuASB when finalising the ED, it is very easy to miss unintended impacts, contradictions and required consequential amendments when seeking to make piecemeal amendments. There is a risk this could have the overall effect of weakening rather than strengthening PES 1 and confidence.
  - If New Zealand deviates from the IESBA Code, this could cause challenges in practice in relation to group audits that operate in different jurisdictions.
  - Given the small market in New Zealand, it could create unforeseen and unnecessary market impacts.
  - Not having a robust, demonstrable basis for the departure from the international independence standard impacts the confidence and buy-in of both users and those implementing the standard in their work.
3. **Do you agree that advising an audit client in their tax return preparation or any adjustments arising therefrom is a form of tax advisory services? As such, consistent with the addition of NZ R604.15 such services would be prohibited for PIEs. (Refer NZ 604.11 A1)**

[New IESBA paragraph amended by the NZAuASB, deleted text struck through, new text underlined]

NZ604.11 A1 Tax advisory and tax planning services comprise a broad range of services, such as advising the audit or review client how to structure its affairs in a tax efficient manner, or advising on the application of a tax law or regulation, or advising an audit or review client in their tax return preparation or any adjustments arising therefrom.

Clearly 'advising' is always 'advice'. So in our view this New Zealand proposed amendment is unnecessary and actually could create greater uncertainty in terms of confusion as to the distinction with tax return preparation that does not involve advice.

## 4. Are there any other tax services contemplated by proposed subsection 604 for which you consider the requirements should be further strengthened and, if so, why?

No.

## Any other non-assurance services

5. **The NZAuASB has not identified any further aspects of the IESBA's provisions that need to be strengthened in New Zealand. We are, however, keen to hear whether stakeholders consider there is a need to further strengthen any specific provisions.**

No further aspects identified.

## Audit-related services

6. **Do you agree that additional services performed by the audit firm will generally not create a self-review threat to the firm's independence when the services are related to the audit engagement?**

Yes.

7. **Do you agree that the examples listed would not generally create a self-review threat to independence? Are there other types of services, that would generally not create a self-review threat to independence, that you consider need to be included as examples? (Refer NZ 600.14 A1)**

[New NZ paragraph inserted]

NZ600.14 A1 Additional work performed by the firm will not generally create a self-review threat to independence when such work is related to the audit or review engagement. Examples of audit or review related engagements include:

- o Engagements required by law or regulation to be performed by the auditor or assurance practitioner.
- o Engagements that involve the formal expression of an assurance opinion or conclusion.
- o Engagements to perform agreed-upon procedures.

However, providing such additional services might create one or more other threats, as noted in paragraph 120.6 A4. In such circumstances, the firm is required to apply the conceptual framework to identify, evaluate and address the threats to independence.

We agree that the examples listed would not generally create a self-review threat to independence. However, we do not believe it is necessary to modify the revised IESBA Code in this regard.

8. **Do you agree that the additional application material emphasising the need to apply the conceptual framework to identify, evaluate and address threats to independence, other than the self-review threat, is helpful to ensure diligent application of the conceptual framework? (Refer NZ 600.14 A1)**

See our response to question 7 above – we do not believe it is necessary to modify the revised IESBA Code in this regard.

- 9. Do you consider additional requirements or application material is needed in relation to audit-related services, to address perceptions of auditor independence? If yes, please provide details.**

Entities that prepare financial reports under the Tier 1 Accounting Requirements must disclose fees paid to their external audit firm (including any network firm) separately for 'audit' and 'non-audit' services. This can lead to the assumption that all the 'non-audit' services are consulting, advisory or other types of services that could compromise independence. Without clarity on what those fees relate to – auditor independence could be perceived to be threatened, especially where the 'non-audit' services fees are a significant portion of the total fees charged by the audit firm.

We support greater disaggregation and clarity in the financial statement disclosure of fees paid or payable to auditors – into audit, assurance, audit related, and non-audit related services. The Code is a sensible place to define the different categories of services that may be provided by an auditor due to the interrelation with the NAS provisions in the Code.

We understand the New Zealand Accounting Standards Board (NZASB) has an ongoing project, jointly with the Australian Accounting Standards Board (AASB), to improve disclosures of fees charged by the entity's audit firm. Since financial statement disclosure requirements are more appropriately achieved through accounting standards, we encourage the NZAuASB to work closely with the NZASB in defining the different categories of services for disclosure purposes.

## Effective Date

- 10. For engagements entered into before 15 December 2022, for which work has already commenced, the transitional provision provides that the firm may continue the engagement under the extant provisions of the Professional and Ethical Standard 1 for up to 12 months. Do you agree with the transitional provision? If not, please explain why not and what alternative you propose.**

We support a 12-month time limit on the transitional provision.

## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 131,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

29 October 2021

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***Submitted electronically***

Dear Board Members

**Deloitte Submission on Exposure Draft NZAuASB 2021-4 Proposed Amendments to Professional and Ethical Standard 1: Non-Assurance Services ('ED NZAuASB 2021-4')**

Thank you for the opportunity to comment on the above exposure draft which sets out the proposed New Zealand specific amendments to the non-assurance services provisions in Professional and Ethical Standard 1 *Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) ('PES-1')*.

We support the continued alignment of PES-1 with the equivalent standard issued by the International Ethics Standards Board for Accountants (referred to as the '**IESBA Code**').

However, we do not support the inclusion of the New Zealand amendments to these provisions. In our view, the 'compelling reasons test' has not been met in respect of the proposed non-assurance services NZ amendments. We have included our reasons for this position in Appendix 1, along with our comments in response to the particular questions raised.

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

Yours faithfully



Melissa Collier  
**Audit Business Leader  
for Deloitte Limited**

Victoria Turner  
**Partner  
for Deloitte Limited**

## Appendix 1: Specific Questions for Comment on ED NZAuASB 2017-1

### *(i) New Zealand specific changes to tax advisory and tax planning services*

#### Question 1

**Do you agree that the provision of tax advisory and tax planning services to an audit client that is a PIE should be prohibited? (Refer NZ R604.15 – NZ 604.15 A1)**

No.

We understand that the NZAuASB only makes changes when there are compelling reasons to depart from the international standards, such as when there is a public interest need to do so, and otherwise will maintain a harmonisation approach.

At this time we do not believe that there are compelling reasons for New Zealand amendments in this area. In particular, we note that the level of non-assurance services is already low<sup>1</sup> and the IESBA Code non-assurance services proposals in this ED (without the NZ amendments) introduce a number of requirements (following extensive international research and debate) which are expected to reduce the level of non-assurance services even further. For example:

- Non-assurance services cannot be provided to public interest entity clients where the service might create a self-review threat, regardless of materiality (ED R600.16),
- A new prohibition has been introduced in relation to certain tax services (ED R604.4), and
- A new process has been introduced requiring auditors to communicate and obtain approval from those charged with governance of a public interest entity before being able to provide non-assurance service (ED 600.19 A1 and subsequent paragraphs),
- among others.

We also note that the New Zealand Accounting Standards Board ('NZASB') has a project to enhance disclosures around non-audit fees (Invitation to Comment ('ITC') paragraph 25).

These provisions significantly enhance the requirements around auditor independence and aim to provide investors with the information they need to assess both independence in fact and independence in appearance (investor perceptions).

#### Question 2.

**Do you foresee any unintended consequences of this prohibition?**

Many New Zealand firms are members of a global network ('network firms') and use globally developed methodology and tools based on international standards when undertaking assurance engagements. Lack of harmonisation means that:

- New Zealand firms will have to introduce workarounds in their systems of quality control to meet these specific requirements, such as changes to tools and templates and to monitoring activities, and
- New Zealand firms will also have to impose the differences on network firms in other jurisdictions where there are multi-national engagements.

These activities add to the cost of an audit in New Zealand and increase the risk of inadvertent non-compliance (particularly for multi-national engagements).

We also note that inconsistency with the IESBA Code may cause issues in relation to decisions by multi-national entities as to who their global service providers for various services should be, particularly if they are looking to change auditor. For example, a multi-national entity may appoint Firm A globally, but the New Zealand subsidiary

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<sup>1</sup> Refer ITC paragraph 19 which references the Financial Markets Authority's Audit Quality Monitoring Report for the period 1 July 2019 – 30 June 2020 which indicated the proportion of fees charged (to FMC reporting entities) by audit firms related to non-assurance services was 16%.

may need to be audited by another firm for an additional period because of this extra NZ restriction that the multi-national entity was not aware of.

### Question 3.

**Do you agree that advising an audit client in their tax return preparation or any adjustments arising therefrom is a form of tax advisory services? As such, consistent with the addition of NZ R604.15 such services would be prohibited for PIEs. (Refer NZ 604.11 A1)**

We do not agree with the proposed changes to paragraphs NZ604.5 A1 or NZ604.11 A1 which attempt to distinguish between engagements to assist clients to prepare the tax return and engagements to provide advice as tax returns are prepared, where only the second engagement type is subject to a proposed blanket prohibition for public interest entity audit clients. This distinction is arbitrary given the nature of the engagement and could cause confusion or inconsistent application in practice.

Tax return preparation services have been identified as a separate category of tax services in the Code, which are noted as not usually creating a threat to independence because they:

- *are prepared based on historical information and principally involve analysis and presentation of historical information under existing tax law, including precedents and established practice; and*
- *are subject to whatever review or approval process the tax authority considers is appropriate.*

(paragraph 604.6 A1)

The presence of these factors materially lessens any potential threats to independence, which would be the case regardless of the type of engagement. Further, should these factors not be present then the introductory paragraphs 604.3A1 – A2, would require assessment of any threats to independence.

As a result, we note that there do not appear to be compelling reasons to depart from the IESBA Code in this respect.

### Question 4.

**Are there any other tax services contemplated by proposed subsection 604 for which you consider the requirements should be further strengthened and, if so, why?**

No.

*(ii) Any other Non-assurance services*

### Question 5.

**The NZAuASB has not identified any further aspects of the IESBA's provisions that need to be strengthened in New Zealand. We are, however, keen to hear whether stakeholders consider there is a need to further strengthen any specific provisions.**

We are not aware of any New Zealand specific independence issues that need further provisions.

*(iii) Audit-related services*

### Question 6.

**Do you agree that additional services performed by the audit firm will generally not create a self-review threat to the firm's independence when the services are related to the audit engagement?**

Yes.

**Question 7.**

**Do you agree that the examples listed would not generally create a self-review threat to independence? Are there other types of services, that would generally not create a self-review threat to independence, that you consider need to be included as examples? (Refer NZ 600.14 A1)**

We agree that the examples listed would not generally create a self-review threat to independence. We don't think that additional examples are required.

**Question 8.**

**Do you agree that the additional application material emphasising the need to apply the conceptual framework to identify, evaluate and address threats to independence, other than the self-review threat, is helpful to ensure diligent application of the conceptual framework? (Refer NZ 600.14 A1)**

We do not consider that this additional material is necessary. Practitioners are already directed to consider the conceptual framework when identifying and evaluating threats to independence (such as R600.8).

**Question 9.**

**Do you consider additional requirements or application material is needed in relation to audit-related services, to address perceptions of auditor independence? If yes, please provide details.**

We do not consider that additional material is required in the Code to address perceptions of auditor independence.

We note that the perception that an auditor is not independent often arises when there is a lack of understanding around the nature of the non-assurance services being provided and the process undertaken by the appointing party (the Board of the Company or similar) and the auditor. We note that IESBA Code changes to be adopted in PES-1 introduce a requirement for the auditors of public interest entities to communicate with those charged with governance and obtain their approval before providing any non-assurance services (refer ED 600.19 A1 – 600.27 A1). This will allow those charged with governance to exercise appropriate oversight of independence considerations during the appointment process. In addition, we understand that the NZASB has a project to consider how fees charged by auditors should be disclosed (ITC paragraph 25).

***(iv) Effective Date***

**Question 10.**

**For engagements entered into before 15 December 2022, for which work has already commenced, the transitional provision provides that the firm may continue the engagement under the extant provisions of the Professional and Ethical Standard 1 for up to 12 months. Do you agree with the transitional provision? If not, please explain why not and what alternative you propose.**

We agree with the proposed transitional provisions.





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29 October 2021

April Mackenzie  
New Zealand Auditing and Assurance Standards Board  
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Submitted via: [www.xrb.govt.nz](http://www.xrb.govt.nz)

Dear April,

**Exposure Draft 2021-4 – Proposed Amendments to *Professional and Ethical Standard 1: Non-Assurance Services***

EY welcomes the opportunity to comment on the Exposure Draft 2021-4.

EY is supportive of the New Zealand Auditing and Assurance Standards Board's (NZAuASB) efforts to enhance the Non-Assurance Services (NAS) provisions of the NZ Code of Ethics, as well as the new provisions to strengthen and improve the quality of firm communication with Those Charged With Governance surrounding NAS-related matters. Broadly we agree that the NZAuASB's proposed changes will reinforce and strengthen auditor independence, and in turn promote confidence in financial reporting. However, there are certain aspects that we are concerned with, as explained below, and believe further deliberation by the NZAuASB would be beneficial.

EY strongly believes that the provision of permissible NAS enhances stakeholder value and, in some instances, improves audit quality so long as such services do not impair, or appear to impair, the auditor's objectivity and impartial judgment.

In fact, certain NAS are best performed by the company's auditors due to three key factors:

- i) The auditor's independence;
- ii) Procedures may already be performed in the course of the audit; and
- iii) Knowledge gained about the company during the course of certain non-audit services can improve the quality of the audit.

This view is supported academically, notably by Defond and Zhang in 2014 who, following a comprehensive review of academic literature suggest that tax related NAS improves audit quality. This is consistent with the strongly supported academic view that auditor competency plays an important role in explaining audit quality and that the performance of certain NAS can enhance auditor competency.

Tax implications of a company's business and transactions are complex, even when clearly supported by tax authority precedent, and are often directly relevant to understanding a company's financial statements. A blanket prohibition on tax advisory and tax planning services could negatively impact the auditor's understanding of their client and, consequently, impact on audit quality. Further, the proposed additional NZ prohibition will consequently limit competition and choice of auditors or tax advisors given the relatively small local market if one firm is precluded from providing either audit or tax services, especially for large corporates or multinationals that need specialists capable of dealing with complex and cross-jurisdictional transactions.

EY is concerned that the proposals to the NZ Code of Ethics that go beyond the International Code of Ethics promulgated by the IESBA will increase the costs of compliance and ultimately undermine the



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purpose of a global Code. The timing of the NZAuASB's proposed revisions fails to provide sufficient opportunity for the market and the profession to assess the impact of the IESBA's enhancements to the NAS provisions, which the NZAuASB are proposing to implement contemporaneously.

In our view, the "compelling reason" test<sup>1</sup> to deviate from the IESBA Code has not been satisfied given the proposed prohibition will not promote significant improvement to audit quality and the associated costs and risk are likely to outweigh the benefits (if any). We are further concerned that the public survey NZAuASB relied on to conclude NAS have negative effects on users' perception on auditor independence may not accurately reflect the broader market consensus given the small sample size of only 115 respondents. Moreover, the survey question that identified tax services tend to have an especially negative effect on perception only had 86 respondents. It is also questionable whether any beneficial effect on auditor independence in appearance by restricting, or even completely prohibiting, NAS will solve the profession's perception challenges.

As reported by the Financial Markets Authority in its 2020 Audit Quality Monitoring Report, the level of NAS fees compared to audit fees has remained low in the past two years at just 16% of the total fees charged to listed entities. This is a positive trend that the profession and company directors should be given the opportunity to continue to effectively manage, particularly since the new IESBA NAS enhancements will further assist this trend. We are concerned that a ban on tax advisory and tax planning services will undermine director responsibilities which has already resulted in the market's natural reduction in auditors providing NAS.

EY believes the proposed prohibition of tax advisory and tax planning services warrants further consideration by the NZAuASB, and we hope our comments will aid these efforts. EY proposes that NZAuASB should assess the effectiveness of the changes made to the IESBA Code before seeking to go beyond these changes, and to understand the impact of these changes on the perception of auditor independence. In the event that these enhancements do not prove effective to improve public interest concerns about any perceived lack of independence, EY would welcome the opportunity to re-consider these prohibitions or any other feasible alternatives, such as:

1. To restrict changes to listed or FMC higher accountability entities as opposed to all PIEs (the NZ PIE definition is very broad, including large charities) and
2. To allow tax advice in situations where the position is highly likely to prevail (or similar thresholds)

Detailed responses to the specific questions and comments posed by the NZAuASB are provided in Appendix 1.

We would be pleased to discuss our comments with NZAuASB and its staff. Should you wish to do so, please contact me (Simon.OConnor@nz.ey.com or on +64 27 271 0788).

Yours sincerely

A handwritten signature in black ink, appearing to read 'foi', written over a horizontal line.

Simon O'Connor  
Managing Partner

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<sup>1</sup> XRB's Principles of Convergence to International Standards, Appendix 1 flowchart

## Appendix I: Responses to specific questions and comments

### 1. Do you agree that the provision of tax advisory and tax planning services to an audit client that is a PIE should be prohibited? (Refer NZ R604.15 – NZ 604.15 A1)

No, we do not believe the provision of tax advisory and tax planning services to an audit client that is a PIE should be prohibited for the following key reasons:

i) Impact to audit quality and limits market choice

EY believes that prohibition of tax advisory and tax planning services would reduce already limited choice in the professional services market in New Zealand. It would not bring any improvement in audit quality and potentially also lower the quality of tax services. Through providing permissible NAS (with appropriate safeguards) audit firms can develop a deeper understanding of the audited company through greater sharing of knowledge but also ensure the appropriate level of challenge in the audit remains. The permissible NAS can further the auditor's insight and competency and can enhance the auditor's professional scepticism, thereby increasing audit quality. Further, if the advice is likely to prevail, there is nothing contentious being audited in terms of subjectivity of tax positions to be taken. Unnecessarily restricting NAS could have unintended adverse effects on the underlying quality of the audit through restrictions in knowledge and skills.

ii) Additional cost to business

The prohibition of tax advisory and tax planning services could create challenges for companies such as extra costs and risks or the inability to find a suitable firm that is independent to perform the work. In particular, the impact would be greater on small-medium sized Public Interest Entities and those with overseas related entities as Those Charged With Governance typically prefer consistency of tax advisors and/or auditors. The need for one firm to advise on tax and another to audit key issues would inevitably increase costs and risks, plus potential loss of audit quality as noted above. Foreign owned NZ PIEs may be particularly disadvantaged by these proposals. They may be forced to have different NAS providers compared with their related entities in different countries. This can result in additional costs, inefficiencies and increased risks.

iii) No compelling reason for additional restriction in NZ

EY is unaware of audit failures tied to independence concerns around the provision of tax services and there is no conclusive evidence that there is an improvement in audit quality subsequent to restrictions on NAS. In fact, the FMA in their 2020 Audit Quality Monitoring Report noted: *When assessing the level of non-assurance services provided by audit firms, we did not find any correlation between the level of non-assurance services provided and the quality of the audit.*

Further, as part of overarching principles of harmonisation with IESBA and Australian standards, the "compelling reason" test, in our opinion, has not been satisfied to justify the additional restrictions. The proposed prohibition is not clear and are not consistent with the NZAuASB's harmonisation approach. As explained above, it also does not promote significant improvement in audit quality, might detract from it and there are associated costs and risks to companies that are likely to outweigh benefits (if any).

We appreciate NZAuASB's effort to resolve the concerns around perception from NAS survey, however only 86 people responded to the negative effect question on the nature of NAS performed by an audit firm. This is by no means a large enough sample size that can be said to reliably reflect the overall market perception and convincingly justify the proposed prohibition.

iv) Undermines directors' role and responsibility

As indicated in the NZAuASB Invitation to Comment paper, there is already evidence<sup>2</sup> that the level of NAS compared to audit services is low for audit clients that are PIEs. With the level of fees for NAS being provided by a listed company's auditor being only 16% of the total fee charged; this is a positive indication that audit firms and Those Charged With Governance are carefully exercising their professional judgement when considering the nature and extent of NAS to be provided by the auditor. This market trend is reflected in Australia and other jurisdictions that apply the IESBA Code. Accordingly, we strongly believe that there is no need for additional restrictions as Those Charged With Governance are exercising their responsibilities in this space judiciously and IESBA code will further this reduction.

v) Recognising that the NZ PIE definition is very broad, the proposed changes would therefore impact a large number of small-medium sized entities; if a prohibition on tax advisory and planning services is being considered, we could therefore see benefit in only prohibiting such services to only listed PIE entities or to FMC higher accountability entities. However, there should be consideration around inefficiencies created when defining a different set of requirements based on the type of PIE entities.

## 2. Do you foresee any unintended consequences of this prohibition?

EY is concerned that the proposed changes may create unintended consequences for the following reasons:

- i) Less direct knowledge or information sharing between the audit team and the tax professionals on the operations and/or risks of the company that could negatively impact audit and tax quality.
- ii) The definition of tax advisory and tax planning services is not well understood and therefore the proposed changes result in less clarity on the application of the Code. Please also see response to question 3.

## 3. Do you agree that advising an audit client in their tax return preparation or any adjustments arising therefrom is a form of tax advisory service? As such, consistent with the addition of NZ R604.15 such services would be prohibited for PIEs. (Refer NZ604.5 A1 and NZ604.11 A1)

EY does not support the prohibition applying to tax compliance services (whether preparation or review), which is in line with the current approach from NZAuASB. However, the proposal suggested by NZAuASB will potentially restrict the ability for the audit firm to provide tax compliance services which may require incidental and or additional tax advisory services in relation to the tax return that are being prepared or reviewed. We do not believe advising on the tax return preparation and related adjustments should be considered tax advisory service.

We believe the proposal may result in inconsistent application where the auditor would be permitted to undertake the preparation of the tax returns based on the client's past tax advice but could not separately provide advice to the client on how a past transaction could be treated by the client, if the client is preparing the tax return.

This could lead to Those Charged With Governance engaging their auditors to complete the tax returns on an ongoing basis as they would be unable to individually engage their auditor to provide discreet, potentially one-off, advice.

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<sup>2</sup> FMA's 2020 Audit Quality Monitoring Report

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NZAuASB should reconsider this, and at a minimum provide further clarity on when tax compliance becomes tax advisory, as it has the potential for misunderstanding and therefore misapplication. The definition and guidance on these interpretations will need to be extensive to avoid inconsistency of application of the proposed restrictions.

**4. Are there any other tax services contemplated by proposed subsection 604 for which you consider the requirements should be further strengthened and, if so, why?**

We do not believe there is compelling reason to depart from the NAS provisions recently approved by the IESBA.

**5. The NZAuASB has not identified any further aspects of the IESBA's provisions that need to be strengthened in New Zealand. We are, however, keen to hear whether stakeholders consider there is a need to further strengthen any specific provisions.**

We do not believe there is compelling reason for any change from the IESBA NAS provisions.

**6. Do you agree that services performed by the audit firm will generally not create a self-review threat to the firm's independence when the services are related to the audit engagement?**

Yes, some NAS (e.g., attestation reports, pro forma, profit forecast, and comfort letters) necessitate an auditor's independence and sound understanding of the company's financial reporting. The benefit of the auditor providing these services arises from the auditor being able to assess whether the information is consistent with the understanding obtained during the audit of the financial statements.

**7. Do you agree that the examples listed would not generally create a self-review threat to independence? Are there other types of services, that would generally not create a self-review threat to independence, that you consider need to be included as examples? (Refer NZ600.14 A1)**

Yes, we believe providing advice and recommendations that are unrelated to financial reporting nor have an impact on the financial statements will not create self-review threat to independence.

**8. Do you agree that the additional application material emphasising the need to apply the conceptual framework to identify, evaluate and address threats to independence, other than the self-review threat, is helpful to ensure diligent application of the conceptual framework? (Refer NZ600.14 A1)**

Yes, EY believes additional material will be helpful to ensure diligent application of the conceptual framework.

**9. Do you consider additional requirements or application material is needed in relation to audit-related services, to address perceptions of auditor independence? If yes, please provide details.**

Yes, we encourage NZAuASB to provide more clarity for Those Charged With Governance and auditors to better understand the scope and limitations services that can be provided by the auditor.



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**10. For engagements entered into before 15 December 2022, for which work has already commenced, the transitional provision provides that the firm may continue the engagement under the extant provisions of the Professional and Ethical Standard 1 for up to 12 months. Do you agree with the transitional provision? If not, please explain why not and what alternative you propose.**

Yes, EY agrees with the transitional provision should NZAuASB decide to adopt prohibition of tax advisory and tax planning services to an audit client that is a PIE.

Robert Buchanan  
Chairperson  
New Zealand Auditing and Assurance Standards Board  
External Reporting Board  
PO Box 11250  
Manners St Central  
Wellington 6142

By email: [submissions@xrb.govt.nz](mailto:submissions@xrb.govt.nz)

3<sup>th</sup> November 2021

Dear Robert,

### **FMA submission on Amendments to Professional and Ethical Standard 1: Non-Assurance Services**

The FMA is responsible for regulating auditors who carry out audits of FMC reporting entities. In doing so the FMA has established an independent oversight system to promote the quality, expertise, and integrity in the audit profession . We also must promote the recognition of the professional status of New Zealand auditors in overseas jurisdictions.

The FMA appreciates the opportunity to comment on the proposed amendments set out in the Exposure Draft of Amendments to Professional and Ethical Standard 1: Non-Assurance Services. In Appendix A we have set out our responses to NZAuASB's specific questions.

### **Importance of an independent audit profession**

From the start of the audit oversight regime, the FMA has highlighted the importance of an independent audit profession. The purpose of an audit is to enhance the degree of confidence users have in financial statements. The role of the auditor is to provide an independent view on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. If users of financial statements believe auditors do not appear to be independent, this may impact confidence in the financial statements, trust in specific auditors, trust in the audit profession and ultimately trust in New Zealand's financial markets.

In this submission, we have considered our work at the FMA in relation to the oversight of registered audit firms and licensed auditors and specifically included the following when considering the importance of auditor independence:

- Our observations from our audit quality reviews of all registered audit firms
- Our 2019 survey of Audit Quality Perceptions Research
- International developments in, and inquiries into, the audit profession

### **Our observations from our audit quality reviews of all registered audit firms**

Although our audit quality reviews have identified improvements in independence considerations by auditors over time, we continue to find issues in individual audit files. Our audit quality reviews include looking at audit firms' compliance with independence standards across all selected audit files.

In recent years we have made several referrals of suspected breaches of the Professional and Ethical Standards. These referrals relate to breaches where auditors have applied interpretations of the Professional and Ethical Standards justifying that these services were permitted. These services would be prohibited under the new standards. We are of the view that the additional requirements are needed and will strengthen the overall framework to avoid similar future breaches.

### **2019 survey of Audit Quality Perceptions Research**

In 2019 the FMA conducted a survey of investors, directors, managers and auditors to better understand the perceptions of audit quality in New Zealand. The survey identified a spectrum of confidence in audit quality across those surveyed, and in particular highlighted a significant gap between what investors expect from an audit and what audit firms are delivering. Those with closer involvement in auditing (ie auditors, managers and directors) were more likely to trust the audit process.

This gap between investors and the profession's view of itself was also clearly visible when participants were asked about the independence of auditors in conducting their audits. In the survey 27% of the investors disagreed that 'Auditors are sufficiently independent from the entities they audit, in comparison to 5% of the auditors and 9% of the directors.

### **International developments and enquiries into the audit profession**

In recent years audit quality has come under scrutiny in several countries, most noticeably in the United Kingdom and Australia. The governments of both of those countries have initiated inquiries, the outcome of which are likely to have a significant impact on the audit landscape in these countries. Both inquiries focused on independence of auditors and suggested strengthening the requirements for auditor independence. We also note that other countries are considering, or have already considered, whether additional requirements are needed to strengthen independence requirements. As a result, several countries have added additional requirements to their laws to restrict the non-assurance services auditors can provide to their clients.

### **Office of the Auditor-General**

We also support the Office of the Auditor-General's view that independence lies at the heart of trust and confidence in the audit profession. Without being, and being seen to be, independent an auditor simply cannot carry out their function effectively. In our view, if auditor independence is not sufficiently well protected the profession is likely to lose standing and reputation, and the public is increasingly likely to question the value of auditing. In short, our position is that auditors should not be involved in non-assurance work for the entities they audit, and standards should reflect this position.

### **Support in strengthening the code**

We welcome the overhaul of the independence requirements, and are pleased that the NZAuASB is proposing to introduce more stringent requirements than the IESBA. Although the code is more prescriptive and provides more clarity on independence there is still significant emphasis on auditors following a robust process. When following the proposed code, we expect not only auditors, but also



directors, will give more thought to how other stakeholders may view threats to independence. If there is an indication that there could be a negative perception, we expect auditors will not perform the non-assurance service to protect trust in the audit profession. Although the code makes specific distinction between Public Interest audits and other audits, auditors should consider that independence is important for all audits. Therefore, auditors need to apply the same independence principles for all audits in order to maintain trust in the profession as a whole.

If you wish to further discuss any of the matters raised in this letter, please let me know. I would welcome further discussion.

Yours sincerely

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end.

Jacco Moison  
Head of Audit and Financial Reporting

## Appendix A – Responses to the questions for respondents

### (i) New Zealand-specific changes to tax advisory and tax planning services

**Question 1.** *Do you agree that the provision of tax advisory and tax planning services to an audit client that is a PIE should be prohibited? (Refer NZ R604.15 – NZ 604.15 A1)*

We support NZAuASB’s proposal to prohibit tax advisory and tax planning services to an audit client that is a Public Interest Entity (PIE). The provision of tax advisory and tax planning services is in direct conflict with the audit and presents a threat to audit independence. Tax advisory and tax planning work is intended to minimise the tax obligations on an entity. Therefore, the work explores the various interpretations of tax law and can result in arrangements that may be challenged by the tax authorities. This situation places the assurance practitioner firm in the position of justifying a tax position and advocating for the entity on one hand and in providing independent assurance on the entity’s financial statements on the other. This is a clear conflict of interest and threat to independence that cannot be adequately managed by safeguards.

**Question 2.** *Do you foresee any unintended consequences of this prohibition?*

A consequence of this provision is that an audit firm that also provides tax services for its audited entity will need to request the entity to find another tax provider. We do not see this as an unintended consequence but necessary to ensure that the assurance practitioner doesn’t compromise its independence in relation to the audit services to its clients.

**Question 3.** *Do you agree that advising an audit client in their tax return preparation or any adjustments arising therefrom is a form of tax advisory services? As such, consistent with the addition of NZ R604.15 such services would be prohibited for PIEs. (Refer NZ 604.11 A1)*

We agree that advising an audit client in their tax return preparation or any adjustments arising therefrom (Part A of subsection 604 of the Code) is a form of tax advisory service. Entities when engaging their audit firm to provide tax return preparation services expect that the tax adviser of the audit firm will point out tax treatments that would reduce their tax expenses and instances that the incorrect tax treatment is applied. Instances of tax preparation in our view lead to a self-review threat (where the auditor is reviewing the firms’ own work) and advocacy threat when challenged by the tax authorities.

The International Ethics Standards Board for Accountants (IESBA) noted that tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice and therefore are unlikely to create a threat. We disagree with that view as this description does not consider that tax law is constantly changing, requires significant judgement and that that precedents can only be set when there are disagreements with interpretation between tax preparers and tax authority. Further the IESBA’s views did not reflect on of the self-review threat and advocacy threat.

**Question 4.** *Are there any other tax services contemplated by proposed subsection 604 for which you consider the requirements should be further strengthened and, if so, why?*

The assurance practitioner should also consider if tax services can be provided when considering the conceptual framework of the Code. We believe that the self-review threat or advocacy threat in relation to tax services would be present when providing tax services to non-public interest entity (PIE). Practitioners applying the code should be reminded that although

NZR604.15 specifically prohibits tax advisory and tax planning services for PIE audits, this does not mean that these services are allowed for non-PIE entities without assessing the risk as set out in the conceptual framework of the code.

## **(ii) Any other Non-assurance services**

**Question 5.** *The NZAuASB has not identified any further aspects of the IESBA's provisions that need to be strengthened in New Zealand. We are, however, keen to hear whether stakeholders consider there is a need to further strengthen any specific provisions.*

In principle, assurance practitioners should not be permitted to provide non-assurance services to audit clients, review clients, or assurance clients to PIEs.

## **(iii) Audit-related services**

**Question 6.** *Do you agree that additional services performed by the audit firm will generally not create a self-review threat to the firm's independence when the services are related to the audit engagement?*

It is the nature of the additional services and the client that will determine whether a threat to independence arises, recognising that the threat is not necessarily limited to a self-review threat.

Although assurance services are unlikely to threaten independence they still should be assessed against the overall conceptual framework. If services will be performed for other third parties, the assurance practitioner should consider other threats, for example advocacy threat.

**Question 7.** *Do you agree that the examples listed would not generally create a self-review threat to independence? Are there other types of services, that would generally not create a self-review threat to independence, that you consider need to be included as examples? (Refer NZ 600.14 A1)*

We agree that the examples of engagements listed in NZ 600.14 A1 would generally not create a threat to independence.

**Question 8.** *Do you agree that the additional application material emphasising the need to apply the conceptual framework to identify, evaluate and address threats to independence, other than the self-review threat, is helpful to ensure diligent application of the conceptual framework? (Refer NZ 600.14 A1)*

We agree that the additional application material in NZ 600.14 A1 that emphasises the need to apply the conceptual framework to identify, evaluate, and address threats to independence, other than the self-review threat, is helpful to ensure a robust application of the conceptual framework.

Assurance practitioners should approach independence with the highest integrity and, when in doubt, take a conservative approach. While the Professional and Ethical Standards and the conceptual framework may allow the provision of certain non-assurance services, assurance practitioners should put themselves in the shoes of the financial statement users and consider how this may be perceived. In line with public expectations, we expect assurance practitioners to give more consideration to these matters, to protect the integrity of the audit.

**Question 9.** *Do you consider additional requirements or application material is needed in*

*relation to audit-related services, to address perceptions of auditor independence? If yes, please provide details.*

The independence requirements of the Code are complex to understand for public. Assurance practitioners should encourage entities to appropriately disclose these services and provide context for why these have been performed by the assurance practitioner. We would also support the XRB to enhance the disclosure requirements of audit and non-audit services in FRS-44.

**(iv) Effective Date**

**Question 10.** *For engagements entered into before 15 December 2022, for which work has already commenced, the transitional provision provides that the firm may continue the engagement under the extant provisions of the Professional and Ethical Standard 1 for up to 12 months. Do you agree with the transitional provision? If not, please explain why not and what alternative you propose.*

We agree with the transitional provisions, however we expect that audit firms would not enter into new engagements after the Code is finalised.



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New Zealand Auditing and Assurance Standards Board  
PO Box 11250  
Manners St Central  
Wellington 6142

Via website

27 October 2021

Dear Robert

**Proposed Amendments to Professional and Ethical Standard 1: Non- Assurance Services dated July 2021 (the “PES 1 Proposal”) issued by The New Zealand Auditing and Assurance Standards Board (“NZAuASB”) on behalf of the External Reporting Board (“XRB”)**

We are pleased to have the opportunity to provide comments to the Proposed Amendments to Professional and Ethical Standard 1: Non- Assurance Services dated July 2021 (the “PES 1 Proposal”) issued by The New Zealand Auditing and Assurance Standards Board (“NZAuASB”) on behalf of the External Reporting Board (“XRB”).

KPMG appreciated the opportunity to discuss the proposals at the roundtables facilitated by the XRB last month.

The PES 1 Proposal is based on the International Ethics Standards Board for Accountants (IESBA) revision of the non-assurance service (NAS) provisions of the IESBA Code. The objective of the revision was to strengthen the International Independence Standards by addressing public interest concerns about the perceived lack of independence when firms provide NAS to their audit (and assurance) clients, in particular those that are Public Interest Entities (PIEs).

KPMG is supportive of the changes made by IESBA which in summary raise the bar, potentially significantly, in terms of those factors that audit firms need to consider before providing NAS to audit clients, through the removal of materiality when considering the provision of NAS and prohibiting services which “might” create a self-review threat. Rather than repeat the detail of these factors, we believe the changes are well encapsulated, and as highlighted in your explanatory materials, in the words of Dr. Stavros Thomadakis, IESBA Chair, who summed up the changes:

*“The new standard is efficient, stringent and objective. It is efficient because with one principles-based prohibition it in fact prevents the provision of a whole set of NAS to audit clients. It is stringent because it eliminates not simply all NAS that give rise to a self-review threat [for PIEs] but all NAS that might give rise to a self-review threat, i.e., not just the fact but even the mere possibility of a self-review threat occurring. It is objective because, as specified in the revision, the prohibition does not depend on a materiality threshold. So, it is not a matter of judgement whether the prohibition will bite or not. It will bite for PIEs.”*

However, the NZAuASB has taken the opportunity to propose a number of amendments including some that go further than those made by IESBA, principally that it should strengthen the position in relation to the provision of tax advisory and tax planning services to an audit client that is a PIE. The NZAuASB proposes that the provision of such services (which includes tax return preparation services) should be prohibited.

We suggest the NZAuASB take the below comments into consideration in finalising its drafting.

**Our Comments**

1. A key strategic objective set by the XRB Board for the NZAuASB is to adopt international auditing and assurance standards, including professional and ethical standards, in New Zealand with modifications acceptable where there is a compelling reason, and provided such modifications consider the public interest in New Zealand and do not conflict with or result in lesser requirements than the international standards. The NZAuASB already acknowledges the view that the revised IESBA provisions substantially raise the bar on prohibiting the provision of NAS. None of the arguments raised by the XRB actually demonstrate a compelling reason as to why modifications to the international auditing and assurance standards are required.



## New Zealand Auditing and Assurance Standards Board

Proposed Amendments to Professional and Ethical Standard 1: Non- Assurance Services dated July 2021 (the "PES 1 Proposal")

27 October 2021

In developing the reforms, we understand that IESBA consulted extensively and concluded that an outright prohibition for tax services was not warranted. Noting such expert consideration regarding such services and the impact on audit independence, unless there is tangible evidence demonstrating that New Zealand tax/audit independence environment is fundamentally different or that audit failure in relation to such services has been meaningfully identified, it would appear inappropriate for the XRB to create a stricter auditor independence regime in New Zealand. In particular, it puts New Zealand at a commercial/regulatory disadvantage when compared to its major business partners such as Australia, Japan, Singapore and the United States and introduces a number of inherent, and possibly unintended, consequences which we discuss further in 4. below.

2. While appreciating the perception point, but without meaningful evidence of audit, or audit independence, failure as a consequence of tax advisory services, prohibiting such services would appear to be ultimately detrimental to quality of services and result in increased compliance costs for practitioners and greater inefficiency and professional services costs for the business community.
3. As acknowledged in your explanatory papers, there is already evidence in New Zealand that the level of NAS compared to audit services is relatively low for audit clients that are PIEs. This statement is supported by our own analyses that also indicate that this ratio has been decreasing in recent years as audit firms (and Audit Committees) have looked more critically at the services audit firms have been asked to perform so as to avoid any risk, even perceived, that the provision of the NAS impairs auditor independence.

As already noted above, the IESBA changes in themselves already raise the bar and will further reduce the levels of NAS provided to PIE audit clients including some of the very services addressed by the NZAuASB proposed amendments.

4. Assuming the proposals are adopted without amendment, auditors of PIE clients will inevitably have to address several scenarios where clarity should be given by the NZAuASB, for example:
  - a. Entity A (a PIE) has a subsidiary (non-PIE) based in Australia – do the rules extend to that jurisdiction so that on a group basis, the group auditors can assert compliance with the PES 1 Proposal?
  - b. Entity A (a PIE) has an associate (non-PIE), Entity B, based in New Zealand and audited by a firm other than A's auditors. B is material to A. Do the rules extend to the associate?

Detailed guidance would need to be provided to enable auditors to comply throughout a group.

Yours sincerely

**Godfrey Boyce**  
CEO



| John Ryan

29 October 2021

File Ref: AU/APS/2-0002  
AU/APS/6-0012

Robert Buchanan  
Chairperson  
New Zealand Auditing and Assurance Standards Board  
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WELLINGTON 6142

Tēnā koe Robert

## **SUBMISSION ON AMENDMENTS TO THE CODE OF ETHICS FOR NON-ASSURANCE SERVICES**

Thank you for the opportunity to comment on Exposure Draft 2021-4, *Amendments to Professional and Ethical Standard 1: Non-Assurance Services*. We note that the standard is being amended to more closely align with the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the IESBA).

We are pleased that the Board is proposing to introduce more stringent requirements than the IESBA. However, in our view the proposed changes don't go far enough.

In our view, the profession should have one set of independence requirements, set at the highest practical level. A private sector auditor should not operate at a lower standard than a public sector auditor.

Independence lies at the heart of trust and confidence in the audit profession. Without being, and being seen to be, independent the auditor simply cannot carry out their function effectively. In our view, if auditor independence is not sufficiently well protected the profession is likely to lose standing and reputation, and the public is likely to increasingly question the value of audit. In short, our position is that auditors should not be involved in non-assurance work for the entities they audit, and standards should reflect this position.

Although we acknowledge consensus building is generally important for standard setters, there are times when strong principled leadership is more important. We consider this to be one of those times.

## **Improving clarity and strengthening content of the Code of Ethics (the Code)**

The Code issued by the Board is written for assurance practitioners. It is long and complex. In our view, assurance practitioners and any members of the public who choose to read the Code would be better served by a Code that:

- used simple and straightforward language;
- set a high standard for independence that applied equally to “independence of mind” and “independence in appearance”;
- applied a single standard of independence to all entities and to all assurance engagements;
- required threats to independence (including independence in appearance) to be eliminated rather than mitigated;
- removed materiality as a factor in determining the provision of non-assurance services; and
- recognised that threats to independence can arise through events unrelated to relationships with, or interests in, the audit or assurance entity.

### ***A high and consistent standard for independence***

We agree that “appearance of independence” needs to be assessed from the perspective of a reasonable and informed third party. However, to properly apply this test, the assurance practitioner must put themselves “in the shoes” of the users of the assurance report and make their assessment based solely on publicly available information. Otherwise, the test fails.

We recommend a tighter definition of “independence in appearance”:

*The avoidance of any facts and circumstances that might cause a reasonable third party informed only by publicly available information to conclude that a firm’s or an audit, review, or assurance team member’s integrity, objectivity, or professional scepticism has been, or may be, compromised.*

Such a definition is similar to the notion of judicial independence; a standard to which the assurance profession should be aspiring to achieve, from a public interest perspective.

### ***A single standard of independence for all entities and all assurance engagements***

The Code applies different standards of independence based on whether the assurance engagement relates to the audit or review of financial statements of public interest entities or non-public interest entities, or other assurance.

Independence should apply to the assurance practitioner, not to the type of assurance they do. For example, applying a lesser independence standard to other assurance engagements assumes that they are less important than the audit or review of financial statements (and where relevant performance information). We do not support that assumption. For example, some assurance engagements, such as assurance over greenhouse gas emissions, may be seen to be more important than the audit or review of financial statements.

### ***The application of safeguards***

We consider that the Code would be more effective if it required the firm and the members of the assurance team to eliminate any threat to independence.



The emphasis on safeguards, in our view, is inappropriate and should be removed. Conflicts need to be eliminated, not mitigated. As Ken Hayne QC (head of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in Australia) noted in his report *“there must be recognition that conflicts of interest and conflicts between duty and interest should be eliminated rather than ‘managed’”*.<sup>1</sup>

### ***Removing materiality as a factor in determining the provision of non-assurance services***

Materiality should not have a bearing on the decision to accept or decline a non-assurance engagement. We do not agree with a materiality “exemption” that would allow non-assurance services to be carried out for entities that are not public interest entities, or for those entities where an assurance practitioner provides an assurance engagement other than the audit or review of financial statements.

### ***Recognising other sources of threats to independence***

The Code tends to focus on relationships or interests between the audit, review, or assurance entity and the assurance practitioner. However, threats to independence can arise in other situations.

A typical example is when an audit entity is disposing of a significant business unit. A member of the assurance practitioner’s network firm may be asked to act for a third party that is contemplating purchasing the business unit. The network firm will be conflicted because of its requirement to audit the vendor entity and its obligation to maximise the economic benefits to the purchasing third party.

This is a situation that threatens independence in appearance to the extent that no safeguards could effectively mitigate the threat.

In our view, the Code should alert assurance practitioners that threats to independence may arise from circumstances and events that do not directly flow from relationships with, or interests in, the audit or assurance entity.

### **Comment on the proposed amendments to the Code**

Our responses to the questions for respondents are in Attachment 1. In Attachment 2, we have also included additional comments on other matters that came to our attention, some of which relate to the fundamental matters raised above.

I consider this a key moment in time for the XRB and the profession. Making a principled stand on independence will substantially increase the standing of the audit profession to those we are there to serve.

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<sup>1</sup> Commonwealth of Australia (2019), *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, Volume 1, Final Report, page 45.

If you wish to further discuss any of the matters raised in this letter, please let me know. I would welcome further discussion.

Nāku noa, nā

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

**John Ryan**

## Attachment 1 – Responses to the questions for respondents

### (i) New Zealand-specific changes to tax advisory and tax planning services

*Question 1. Do you agree that the provision of tax advisory and tax planning services to an audit client that is a PIE should be prohibited? (Refer NZ R604.15 – NZ 604.15 A1)*

We note that this provision is intended to apply to audit and review clients that are public interest entities (PIEs). We agree with this change but consider that it does not go far enough. In our view, the prohibition on the provision of tax advisory and tax planning services (Part C of subsection 604 of the Code) should apply to all audit clients, review clients, and assurance clients, irrespective of whether the entity is a PIE.

The provision of tax advisory and tax planning services is in direct conflict with the audit and presents an unacceptable threat to audit independence. Tax advisory and tax planning work is intended to minimise the tax obligations on an entity. As a consequence, this work explores the boundaries of tax law and can result in arrangements that may be challenged by the tax authorities. This situation places the assurance practitioner firm in the intolerable position of justifying a tax position and advocating for the entity on one hand and in providing independent assurance on the entity's financial statements on the other. This is a clear conflict of interest and threat to independence that cannot be adequately managed by safeguards.

The threats to independence are often greater for entities that are not PIEs. Those entities place much greater reliance on the tax expertise in the firm to give them confidence that their tax affairs are in order.

*Question 2. Do you foresee any unintended consequences of this prohibition?*

A consequence of this provision is that an assurance practitioner firm that is the registered tax agent of an audit or review client will need to request the entity to find another tax agent. This is not an unintended consequence but is a necessary step to ensure the assurance practitioner firm has no association with the audit or review client in the context of managing its tax affairs.

*Question 3. Do you agree that advising an audit client in their tax return preparation or any adjustments arising therefrom is a form of tax advisory services? As such, consistent with the addition of NZ R604.15 such services would be prohibited for PIEs. (Refer NZ 604.11 A1)*

We agree that advising an audit client in their tax return preparation or any adjustments arising therefrom (Part A of subsection 604 of the Code) is a form of tax advisory service. We note that this interpretation is limited to audit and review clients that are PIEs. As stated above, our view is that the prohibition on the provision of tax advisory and tax planning services should apply to all audit clients, review clients, and assurance clients, irrespective of whether the entity is a PIE.

The proposed Code allows an assurance practitioner to enter into engagements that are "related to the audit or review engagement" (para NZ600.14 A1). This would permit the assurance practitioner to engage with the audit client, review

client, or assurance client to audit or review the tax return they have prepared for filing with the tax authorities.

The assurance practitioner needs to exercise considerable caution before they accept such engagements. They may unwittingly assume a management responsibility if the entity does not have personnel with the necessary understanding and experience of the applicable tax law to prepare a credible tax return. We suggest that the risk of assuming management responsibility is high in the context of auditing or reviewing tax returns prepared by the entity, and the Code should specifically draw attention to R600.7 of the Code, which prohibits an assurance practitioner from assuming management responsibility.

*Question 4. Are there any other tax services contemplated by proposed subsection 604 for which you consider the requirements should be further strengthened and, if so, why?*

We find it difficult to understand why the prohibition on the provision of tax advisory and tax planning services should be limited to audit and review clients that are PIEs. The independence threats apply equally, if not to a greater extent, to audit clients, review clients, and assurance clients that are not PIEs. Limiting of the prohibition to audit and review clients that are PIEs reveals an inconsistency in the application of independence in the Code, from both an application perspective and from a public understanding perspective, because the Code should set a single standard for independence across all entities and for all assurance engagements.

In addition, we are of the view that prohibitions should be extended to tax calculations for the purpose of preparing accounting entries (Part B of subsection 604 of the Code), to tax services involving valuations (Part D of subsection 604 of the Code), and to assistance in the resolution of tax disputes (Part E of subsection 604 of the Code). These prohibitions should apply to all audit and review clients and to all assurance clients.

**(ii) Any other Non-assurance services**

*Question 5. The NZAuASB has not identified any further aspects of the IESBA's provisions that need to be strengthened in New Zealand. We are, however, keen to hear whether stakeholders consider there is a need to further strengthen any specific provisions.*

In principle, assurance practitioners should not be permitted to provide non-assurance services to audit clients, review clients, and assurance clients, irrespective of whether they are PIEs.

However, we consider that assurance practitioners should be able to assist a unique group of small entities, which we describe as "micro-entities", to compile simple financial statements in accordance with the applicable financial reporting framework. Compilation involves using information derived from the entity's trial balance or underlying records. Such a service would be permitted only when the entity does not have access to personnel with the knowledge to prepare the financial statements and does not have the financial resources to engage the necessary personnel. In this situation overall accountability is served because financial statements would not be prepared by these entities without the assurance practitioner's assistance.

Apart from “compilation” engagements, additional engagements carried out by assurance practitioners should be limited to “work of an assurance nature”.

A deficiency in the Code is that it does not acknowledge the threats to independence when assurance practitioners enter into engagements with third parties that are unrelated to audit clients, review clients, and assurance clients. Such engagements can threaten independence in appearance.

**(iii) Audit-related services**

*Question 6. Do you agree that additional services performed by the audit firm will generally not create a self-review threat to the firm’s independence when the services are related to the audit engagement?*

It is the nature of the additional services that will determine whether a threat to independence arises, recognising that the threat is not necessarily limited to a self-review threat. The heading preceding 600.1 refers to “non-assurance services”. It follows that any service that falls outside this description is an “assurance engagement”. And the description “assurance engagement” captures the nature of an additional service that is very unlikely to threaten the independence of an assurance practitioner.

The description “audit-related service” is described as one that is related to the audit engagement. Without reading further, a service that is related to an audit engagement could be construed as any form of work (both assurance and non-assurance in nature) that directly relates to the subject matter of the audit. In an audit of financial statements such engagements could include valuations, the design and implementation of internal control systems, reconciliations, preparation of financial statements, and so on. In our view, the description of a service as “related to the audit” does not capture the nature of those services that would not threaten the independence of the assurance practitioner. However, “assurance” does describe the nature of a service that is unlikely to threaten independence and that is why the Auditor-General has chosen the term “work of an assurance nature”. In the Auditor-General’s independence requirements “work of an assurance nature” is defined more broadly than the narrow specification of “assurance engagement” in the glossary in the Code.

*Question 7. Do you agree that the examples listed would not generally create a self-review threat to independence? Are there other types of services, that would generally not create a self-review threat to independence, that you consider need to be included as examples? (Refer NZ 600.14 A1)*

We agree that the examples of engagements listed in NZ 600.14 A1 would generally not create a threat to independence. Other engagements that would complement the audit but that would not necessarily require the assurance provider to express an opinion might include:

- independent quality assurance of a project assessed against a generally accepted standard;
- reviews over the probity of processes;
- observation of the integrity of voting procedures;
- in-depth examination of processes or internal control systems that wouldn’t normally be considered as part of the financial statement audit; and
- effectiveness and efficiency audits.

*Question 8. Do you agree that the additional application material emphasising the need to apply the conceptual framework to identify, evaluate and address threats to independence, other than the self-review threat, is helpful to ensure diligent application of the conceptual framework? (Refer NZ 600.14 A1)*

We agree that the additional application material in NZ 600.14 A1 that emphasises the need to apply the conceptual framework to identify, evaluate, and address threats to independence, other than the self-review threat, is helpful to ensure diligent application of the conceptual framework. We make this comment while observing that the Code should be formulated to address the fundamental concerns expressed in the covering letter.

*Question 9. Do you consider additional requirements or application material is needed in relation to audit-related services, to address perceptions of auditor independence? If yes, please provide details.*

As noted in our covering letter, in our view the independence requirements of the Code are too complex to give the public confidence that assurance practitioners are independent in both fact and appearance.

**(iv) Effective Date**

*Question 10. For engagements entered into before 15 December 2022, for which work has already commenced, the transitional provision provides that the firm may continue the engagement under the extant provisions of the Professional and Ethical Standard 1 for up to 12 months. Do you agree with the transitional provision? If not, please explain why not and what alternative you propose.*

We agree with the transitional provisions.

## Attachment 2 – Additional comments on the proposals

As well as the matters raised in the covering letter and in Attachment 1, we have a number of detailed comments on the Exposure Draft as set out below.

Paragraph	Comment
Paragraph 11 of the invitation to comment	<p>The invitation to comment correctly observes that independence in appearance is critical; irrespective of whether the entity is a PIE. However, the Board intends to adopt the revised IESBA provisions that are limited to prohibiting assurance practitioners from accepting certain non-assurance services that might create a self-interest threat for audit or review clients that are PIEs. In addition, there is a specific prohibition on the provision of tax advisory and tax planning services for audit and review clients that are PIEs.</p> <p>The proposals do not adequately address independence in appearance, in that:</p> <ul style="list-style-type: none"> <li>• they do not directly respond to the application of the “reasonable third party” test. For example, the safeguard of using professionals who are not audit or review team members to perform the service does not safeguard independence in appearance; and</li> <li>• the proposals do not apply to audit or review clients that are not PIEs, or to assurance clients.</li> </ul>
R600.14	<p>This requirement specifies the process that the assurance practitioner should follow to determine whether a non-assurance service can be carried out for an audit or review client that is not a PIE, where the service might create a self-review threat. If the Code is also intended to give the public confidence that assurance practitioners are independent (as we consider it should), this is an example of the complexity in the Code that fails to give that confidence.</p> <p>In addition, the assessments in (a) and (b) of R600.14 enable the assurance practitioner to examine the nature of the non-assurance engagement in minute detail and determine whether the results of the engagement will be encountered as part of the audit or review. A sceptical person might conclude that R600.14 is designed to allow fine adjustments to be made to the scope of the non-assurance engagement so that it is permitted under the Code.</p>
R600.25	We note this requirement does not contain a “shall” statement.
R600.26(c)(iv)	This is a condition requiring the firm to address other threats created by providing such services that are <b>not</b> at an acceptable level. Should the “not” be removed?

Paragraph	Comment
601.5 A2	<p>This paragraph gives examples of “accounting and bookkeeping services” that might be regarded as routine or mechanical in nature and that might be carried out by an assurance practitioner for audit or review clients that are not PIEs.</p> <p>The fact that processes may be routine or mechanical is not a reason for permitting an assurance provider to carry out these services for the entity they are required to audit or review. These are processes over which the assurance practitioner is required to express an independent opinion. That an assurance provider, for example, is permitted to prepare payroll calculations stretches the credibility of the independent assurance they are required to provide.</p> <p>The one exception, in our view, relates to carrying out compilation engagements in the unique circumstances described in our response to question 5 in Attachment 1.</p>
Subsection 604 generally	<p>In our view, the Code should prohibit assurance practitioners from entering into any form of tax service with the entity, as described in A, B, C, D and E of subsection 604. The prohibition should apply to all audit clients, review clients, and assurance clients irrespective of whether the entity is a PIE.</p> <p>The threats to independence arising from tax services are so significant that they should not be accepted. Furthermore, mitigations cannot be applied to reduce the independence threats to an acceptable level.</p>
604.22 A1	<p>This paragraph states that a factor to be taken into account in identifying self-review or advocacy threats created by assisting an audit or review client in the resolution of tax disputes is whether the proceedings are conducted in public.</p> <p>It suggests if a dispute can be resolved “behind closed doors” then that lessens the threat to independence. Public confidence in assurance practitioners is diminished if a lack of transparency in process is seen as a mitigating factor in deciding whether non-assurance services can be accepted.</p>
605.2 A2	<p>There is a comment in this paragraph that suggests if internal audit involves matters that are “operational in nature” they do not necessarily relate to matters that will be subject to consideration in relation to the audit or review of the financial statements and can be accepted. This statement conveys a very narrow view of the purpose of the financial statements which, in part, is to fairly present the financial consequences of an entity’s operations. We suggest that assurance practitioners becoming involved in matters that are operational in nature does not automatically reduce the threats to independence from the perspective of the external auditor.</p>
R610.6	<p>This requirement sets out a two-step process to be followed when deciding whether advice in relation to corporate services can be provided. The process requires that both steps need to be considered through the use of the connector “and”. However, in our view, if the advice depends on a particular accounting treatment or presentation in the financial statements (the first step) then that is a sufficient basis for not accepting the engagement because it presents an unacceptable threat to independence.</p>



Paragraph	Comment
605.5 A1, 606.6 A1 607.7 A2 607.8 A1 608.6 A1 608.10 A1 609.4 A4 610.7 A1 610.8 A1 900.32 A1	<p>We have a concern that some of the safeguards in the Code are focused solely on mitigating threats to “independence of mind”, but do little to mitigate threats to “independence in appearance”. These paragraphs refer to the safeguard of using professionals who are not audit or review team members to perform non-assurance services. This safeguard does not satisfy the test of the reasonable third party informed only by publicly available information. The users of assurance practitioners’ reports tend to view non-assurance services as an indicator that a firm may be compromising the quality of the assurance engagement.</p>
	<p>As stated in our covering letter, we also encourage the consideration of several fundamental matters.</p> <p>In our view, assurance practitioners and any members of the public who choose to read the Code would be better served by a Code that:</p> <ul style="list-style-type: none"> <li>• used simple and straightforward language;</li> <li>• set a high standard for independence that applied equally to “independence of mind” and “independence in appearance”;</li> <li>• applied a single standard of independence to all entities and to all assurance engagements;</li> <li>• required threats to independence (including independence in appearance) to be eliminated rather than mitigated;</li> <li>• removed materiality as a factor in determining the provision of non-assurance services; and</li> <li>• recognised that threats to independence can arise through events unrelated to relationships with, or interests in, the audit or assurance entity.</li> </ul>



Robert Buchanan, Chair  
New Zealand Auditing and Assurance Standards Board  
PO Box 11250 Manners St Central  
Wellington 6142

29 October 2021

Dear Robert

**Amendments to Professional and Ethical Standard 1: Non-Assurance Services Exposure Draft NZAuAsB 2021-4**

We appreciate the opportunity to comment on the proposed adoption of the IESBA changes regarding non-assurance services and the NZ specific proposed amendments, together with the Amendments to Professional and Ethical Standard 1: Non-Assurance Services Exposure Draft NZAuAsB 2021-4.

This response is filed on behalf of PricewaterhouseCoopers New Zealand (PwC NZ). References to “PwC”, “we” and “our” refer to PwC NZ only. This submission is not made on behalf of the global network of member firms.

**Overall comments**

We are supportive of the objective of IESBA to strengthen the International Independence Standards (IIS) by addressing public interest concerns about the perceived threats to independence when firms provide non-audit services (NAS) to their audit clients, and particularly those that are PIE audit clients. PwC is committed to audit quality and measures to improve stakeholder perception of audit quality.

We also recognise the importance of global conformity and consistency. As set out in our responses to the specific questions below, the more restricted position proposed by the NZAuASB may be difficult to implement in practice for multinational audit clients.

The XRB recognise that diverging from an international standard must be supported by a “compelling reason<sup>1</sup>” and the changes must not “conflict” with the international standards. The PIE definition in New Zealand is broad and captures many more entities than in other comparable jurisdictions. Most of the investor sentiment from the surveys referenced appears to be directed at listed entities. We encourage the NZAuASB to consider whether the prohibitions proposed apply too broadly given our small New Zealand market and whether, should the NZAuASB proceed with the proposals, they are narrowed to apply to New Zealand publicly listed entities only.

We note that the New Zealand specific proposed amendments have been referenced to “investor feedback” and specifically the outcomes of the survey completed by the XRB in April 2021 “Understanding perceptions of audit independence”. The survey included responses from 115 respondents. The XRB survey responses appear to have influenced the stricter measures proposed in the New Zealand standard with regard to tax related services. However, our observation, from our assessment of the survey results, is that there appears to be a general lack of understanding amongst the respondents of the threats arising from other services that might be provided to audit clients. Services that would represent a significant threat to auditor independence, such as preparing financial statements or designing and implementing internal control systems or accounting systems were rated as having a lower weighted average “negative effect” by respondents than tax advice or advice relating to financial reporting.

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<sup>1</sup> ED paragraph 17



As examples we refer to the weighted average responses<sup>2</sup> to:

- Design and implementation of internal control systems - 1.53
- Preparation of financial statements - 1.69
- Design and implementation of accounting information systems - 1.56

The negative perception rating from respondents for tax related services was higher than for the above services (1.73 – 2.36), yet we would have expected a reasonable and informed third party to have perceived the negative effect to be higher for the three services listed above given the actual independence threat created if such services are provided by an audit firm to an audit client.

#### *CA ANZ Survey Results*

Of relevance to investor perceptions is the *2021 New Zealand Investor Confidence Survey* results from the CA ANZ survey which included 524 respondents. The CA ANZ survey confirmed that confidence in auditors is high with auditors remaining number one in the most trusted group when it comes to investor protection and market integrity<sup>3</sup>. 92%<sup>4</sup> of those surveyed had confidence in the audited financial statements. This confidence level is high and a positive reflection of the confidence investors have in auditors.

The CA ANZ survey evaluated the confidence in financial information released by publicly listed New Zealand entities and indicated a strong level of confidence that auditors act ethically and provide honest and independent third-party scrutiny, and only 12<sup>5</sup> of the 524 respondents suggested that either the companies or the auditors have a conflict of interest.

Additionally, the ED acknowledges that there is evidence in New Zealand that the level of NAS compared to audit services is relatively low for audit clients that are PIEs.

The surveys illustrate a potential lack of understanding of how other services may actually impact auditor independence. It is not clear whether the respondents were providing answers based on the reasonable and informed third party test in the *IESBA Code* and *Profession and Ethical Standard 1: International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES1).

We do not believe the outcomes from either of the surveys support a compelling reason to impose further restrictions, over and above those already contained within the IESBA Code, in respect of the services that audit firms provide to PIE audit clients. It would be helpful to understand the other sources of information that the NZAuASB have considered in evaluating the compelling basis for the proposed changes.

If the NZAuASB believe compelling reasons exist, then restricting the proposals to New Zealand publicly listed entities only would seem to more appropriately address the investor concerns noted in the ED with auditor independence and would correlate to the results of the surveys noted above.

We would encourage the NZAuASB to consider whether there is more that could be done to educate investors of the restrictions that exist in the ethical standards around other services an audit firm can perform. More education on the nature of the independence threats, particularly self-review threats, that can arise and potential mitigations would also be helpful to the broader understanding of investors. We would also encourage the NZAuASB to consider whether alternative options exist that would meet their objectives. This could include development of Guidance Notes to assist practitioners with the practical application of the IESBA changes.

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<sup>2</sup> NZAuASB Public Meeting Papers 8 April 2021 page 10

<sup>3</sup> Executive summary, page 3 of the CA ANZ investor confidence report

<sup>4</sup> Executive summary, page 3 of the CA ANZ investor confidence report

<sup>5</sup> Page 7 of the CA ANZ investor confidence report



**Concluding comments**

PwC supports consistency and conformity with international standards. Adopting the IESBA changes with no further amendment would facilitate consistent auditor compliance with independence requirements particularly for Network firms with multinational audit clients.

The IESBA Code restricts the provision of any service that “might” create a self-review threat for a PIE audit client. Therefore, with appropriate guidance, the restrictions already contained in the IESBA Code would prohibit tax services that may create a self-review threat negating the need to further strengthen PES 1 with the New Zealand specific amendments.

We acknowledge the public interest test that the NZAuASB takes into account in applying its compelling reason test. We encourage the NZAuASB to ensure it has the appropriate level of evidence to support any New Zealand specific changes as part of the compelling reason evaluation, including consideration of the impact for global clients and network firms if New Zealand specific changes to the IESBA code are adopted. We also encourage the NZAuASB to consider whether the population of audits that the proposals would apply to is appropriate given our market size and the survey results.

Our responses to the ED questions are included in the attached appendix.

Yours faithfully

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

Karen Shires  
Chief Risk & Reputation Officer



Specific question responses:

**(i) New Zealand specific changes to tax advisory and tax planning services**

Question 1: Do you agree that the provision of tax advisory and tax planning services to an audit client that is a PIE should be prohibited? (Refer **NZ R604.15** – NZ 604.15 A1)

The IESBA amendments do not prohibit the provision of tax advisory or tax planning services to a PIE audit client but do recognise that the services are not permitted if the provision of such services **might** create a self-review threat.

We do not agree that all tax advisory and tax planning services are likely to create a self-review threat, as we explain below. IESBA 604.12 A2 provides examples of tax services that will not create a self-review threat. We believe this offers appropriate guidance for the application of the standard.

The additional restrictions for tax services proposed by the NZAuASB removes the professional responsibility for members and assurance practitioners to evaluate whether a self-review threat *might* arise from tax advisory and tax planning services and suggests a self-review threat will always arise from such services.

*Further relevant context*

It is a reasonable expectation that management of a listed entity has sufficient expertise to make decisions relevant to tax advice and tax planning. Notwithstanding the skills and competence of management, technical advice on tax is a necessary and essential service that businesses require from time to time.

Given the removal of a “materiality” consideration, the effect of the IESBA changes would only permit services that do not create a self-review threat.

Tax advisory and tax planning services can include factual representations of tax law and/or regulations. It may involve consideration of scenarios and the potential impact based on current or proposed tax legislation in any given jurisdiction. The output of the service may provide options or recommendations based on law or regulation, and it is possible that a self-review threat does not arise, and would not be expected to arise, given there is no direct advice to the client.

In respect of the IESBA changes, there is an acknowledgement that a self-review threat does not arise just because a service relates to a number that appears in the financial statements. There has to be more complexity or uncertainty or forward planning/speculation involved before it runs the risk of judgements that would be subject to evaluation by the auditors. The international standard acknowledges that if, for example, there is a ruling request submitted to Revenue authorities, or standard practice to be followed, then the advice is simply bringing that standard practice to the attention of management and so is an application of existing tax rules to an existing commercial transaction or event. This differs from tax planning or advisory work that relates to structuring for the best results in a future transaction.

Tax advice may have an indirect effect (or no actual effect) on the financial statements. The output of the service may prevent the entity incurring significant cost or prevent a negative tax position or breach of tax legislation. The effect of such advice may not be identifiable and would not cause a self-review threat as there is no direct impact on the reported (or historical) results in the financial statements.



*Clarity point*

We recommend that the NZAuASB consider distinguishing tax advisory or planning services where the effect or outcome will not be subject to audit (i.e. there is no direct or only an indirect impact on the financial results) from other tax services and that the former be permitted in New Zealand under the NZAuASB changes. We acknowledge that this circumstance may not be frequent.

Examples of tax advisory services that may not have a direct effect on the audit subject matter, although they may have an indirect effect:

- a) assisting or advising an audit client with a voluntary disclosure for tax or GST (these services are not covered by 604.20 Assistance in the Resolution of Tax Disputes),
- b) assisting or advising an audit client on transfer pricing documentation to meet compliance requirements under the Income Tax Administration Act, or
- c) other tax advisory or tax planning services for proposed transactions that involve presentation of the options available with the respective impacts based on the Income Tax Act but do not involve a recommendation.

**Question 2: Do you foresee any unintended consequences of this prohibition?**

We believe that prohibiting all tax advisory and planning services for PIE audit clients may have unintended consequences and cause confusion for auditors and some organisations, particularly for those with cross-territory Group client relationships.

ISA (NZ) 600, and its international equivalent (ISA 600), require audit teams reporting to PIE Group auditors to meet the Group reporting entity's relevant territory independence requirements. The conformity with Global independence requirements facilitates a clear understanding of requirements around the network firms.

The New Zealand specific changes do not appear to take into account the global nature of both audit engagements and tax engagements undertaken by larger firms. Whether it is a global audit engagement (New Zealand outbound or multinational inbound to New Zealand), a global tax engagement, or both, the New Zealand specific prohibitions risk creating confusion because of the inconsistent global approach to service restrictions.

*Clarity point*

The NZAuASB should clarify the boundaries of the proposed prohibitions, particularly for multinational clients with group audit responsibilities.

As an example: For multinational group audit clients, where the New Zealand entity is a PIE, does the restriction apply only to the New Zealand PIE entity, to subsidiaries in New Zealand and/or subsidiaries offshore? Tax services provided in an offshore territory to a subsidiary may breach the New Zealand PES 1 requirements but comply with IESBA. This would create an independence issue for the New Zealand PIE auditor.

If tax services that would be subject to stricter New Zealand restrictions are provided to an offshore group audit client but have relevance to a New Zealand PIE audit client, is this intended to be captured? This circumstance may not be known by the auditor in New Zealand until the work has been concluded or may not be identified at all if the effect on the financial results is indirect rather than direct, ie: the services may result in tax savings which would not be "visible" to the New Zealand auditor. Such a service cannot create a self-review threat but would nonetheless be prohibited in New Zealand under PES 1 if the NZAuASB amendments are approved.

By way of example to illustrate the complexity of applying the proposed New Zealand restrictions more broadly, the following scenarios are common in respect of the audit and tax services provided to multinational Groups:

1. New Zealand PIE Group with international subsidiaries, audited in New Zealand and offshore by one audit firm (or network of firms);
2. New Zealand PIE Group with international subsidiaries, audited in New Zealand by one firm and offshore by different audit firm(s);
3. New Zealand PIE audited by an offshore audit firm with a licence to audit in New Zealand;
4. Offshore PIE Group with New Zealand subsidiaries subject to PIE group independence requirements, audited offshore and in New Zealand by one audit firm (or network of firms);
5. Offshore PIE Group with New Zealand subsidiaries subject to PIE group independence requirements, audited offshore by an offshore audit firm which also audits the New Zealand subsidiaries;
6. Offshore PIE Group with New Zealand subsidiaries, audited offshore by one firm and in New Zealand by another firm.

There may be other consequences arising from these differences.

[Question 3: Do you agree that advising an audit client in their tax return preparation or any adjustments arising therefrom is a form of tax advisory services? As such, consistent with the addition of NZ R604.15 such services would be prohibited for PIEs. \(Refer NZ 604.11 A1\)](#)

We do not agree that tax return and other tax compliance services are a form of tax advisory services that should be incorporated in the proposed additional restrictions.

The IESBA Code has distinguished between activities which are largely mechanical and other services which are more complex or judgemental. IESBA view tax return preparation as procedural, relying on the application of tax rules applied to a defined set of client prepared data. Whilst there may be some judgement in the application of the tax legislation (i.e. is something capital or revenue) the tax practitioner follows standard practice and operates within the boundaries of the law, limiting the ability to apply any significant judgement as to how a balance is “returned” as part of the tax return preparation. We agree with the distinction adopted by IESBA that providing tax return preparation services does not usually create a threat (604.6 A1) because:

- (a) Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice; and
- (b) Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

We note NZAuASB’s proposed restrictions reference the evidence of investor perception that they have obtained through the market surveys referred to above. However, we suggest that the presentation of the survey questions, and the investor responses to those questions, support the distinction put forward by IESBA. The survey did not incorporate tax return and other tax compliance services together with tax advisory and tax planning services, and incorporating those services now would be inconsistent with that initial distinction. Whilst we have raised earlier our concerns regarding the general level of understanding regarding non-audit services and the threats to independence that may arise, the results of the survey clearly indicate a divergence of the perception of the threat when it comes to tax compliance versus more complex tax advisory work.



A critical element of the tax return preparation that removes any responsibility for the accounting firm having prepared the tax return is that the taxpayer must, under New Zealand law, take responsibility for any tax positions and tax filings. Practically, tax return preparation occurs some time after the financial statements audit has been completed for PIE audit clients. This is because the timeframes for financial statement preparation and the audit requirement for a PIE entity are shorter than the tax return filing period, particularly for clients registered with a tax agent who have an extension of time for filing the tax return.

Some audit clients engage the service of a tax agent to take pressure off filing their annual tax return in terms of capacity and available time. As a client of a registered tax agent, they enjoy an extension of time (EOT) arrangement that would otherwise not be available to them. As the tax agent, the practitioner prepares and files the tax return based on information provided to them by the client. Such services do not, in our view, create a self-review threat.

*Clarity point*

There appears to be an inconsistency in the proposed changes relating to tax return preparation. Paragraph 604.6 A1 reflects that providing tax return preparation services does not usually create a threat because they are based on historical information and are prepared under existing tax law. In addition, the return is subject to review and approval processes employed by the tax authority. This is consistent with IESBA. Notwithstanding this, the NZAuASB have considered that advising an audit or review client in their tax return preparation constitutes tax advisory services (NZ604.11 A1) and would therefore be not permissible for PIE audit clients (NZR604.15) if the changes proposed are approved. This is confusing.

Clarification of the distinction between section 604.6 A1 that reflects that there would not usually create a self- review threat created from providing tax return **preparation** services and NZR604.15 which prohibits **advising** a PIE audit client in their tax return preparation because it would create a self-review threat would be helpful.

[Question 4: Are there any other tax services contemplated by proposed subsection 604 for which you consider the requirements should be further strengthened and, if so, why?](#)

We do not believe requirements of subsection 604 require strengthening, however we do consider subsection 604 requires further consideration to address apparent inconsistencies which we believe may create confusion over what constitutes “tax advisory services”.

As an example, it is not clear whether the provision of regular tax compliance services such as preparing GST, PAYE, Transfer Pricing and FBT returns and filing is captured as tax advisory services (NZR604.15) or tax preparation services as defined in NZ604.5 A1 and 604.6 A1, which would suggest such services would be permissible for all audit or review clients.

A further example of an area where the proposed NZAuASB changes create inconsistency and potential confusion is in determining what will constitute tax advisory services. This currently includes R604.24: Assistance with resolution of tax disputes. This service has not been further restricted by the NZAuASB for PIE audit clients and has not been categorised as a tax advisory service. This seems inconsistent with the position adopted by the NZAuASB on tax advisory services.





**(ii) Any other Non-assurance services**

Question 5: The NZAuASB has not identified any further aspects of the IESBA's provisions that need to be strengthened in New Zealand. We are, however, keen to hear whether stakeholders consider there is a need to further strengthen any specific provisions.

PwC supports the application of conformity in adopting global standards to ensure consistency and remove unnecessary additional challenges with delivery of services to global clients.

**(iii) Audit-related services**

Question 6: Do you agree that additional services performed by the audit firm will generally not create a self-review threat to the firm's independence when the services are related to the audit engagement?

PwC agree that audit related services will generally not create a self-review threat to the firm's independence.

Question 7: Do you agree that the examples listed would not generally create a self-review threat to independence? Are there other types of services, that would generally not create a self-review threat to independence, that you consider need to be included as examples? (Refer NZ 600.14 A1)

PwC agree that the examples listed in paragraph 41 of the consultation document would not generally create a self-review threat.

Question 8: Do you agree that the additional application material emphasising the need to apply the conceptual framework to identify, evaluate and address threats to independence, other than the self-review threat, is helpful to ensure diligent application of the conceptual framework? (Refer NZ 600.14 A1)

The framework is conceptual and application of the standard involves professional judgement. The additional guidance provides a reminder of the relevant considerations.

Question 9: Do you consider additional requirements or application material is needed in relation to audit-related services, to address perceptions of auditor independence? If yes, please provide details.

An assessment of the threats that might arise from a "perception" is subjective and there is a risk that perceptions are misaligned.

The independence in appearance threat is often referred to by commentators as the basis for challenging the independence of a firm or auditor. However, the broader principles of the conceptual framework, and more particularly the reasonable and informed third party test, are often not reflected when evaluating an appearance threat.

The standards make it clear that independence in appearance must be evaluated with regard to a reasonable and informed third party assessment. A reasonable and informed third party is expected to form a conclusion after weighing all the relevant facts and circumstances. Initial views may be expressed by uninformed third parties which are not helpful in the context of independence and our profession.

Further guidance in this regard may assist third parties to understand the expectation that they weigh all relevant facts and circumstances when evaluating an independence in appearance threat.



**(iv) Effective Date**

Question 10: For engagements entered into before 15 December 2022, for which work has already commenced, the transitional provision provides that the firm may continue the engagement under the extant provisions of the Professional and Ethical Standard 1 for up to 12 months. Do you agree with the transitional provision? If not, please explain why not and what alternative you propose.

PwC supports consistency with the Global provisions recommended by IESBA.

The IESBA transitional provision provides that, for engagements entered into before 15 December 2022 and for which work has already commenced, the firm or network firm may continue under the extant provisions of the Code until the engagement is completed in accordance with the original engagement terms.

PwC acknowledges the NZAuASB's view that an open-ended transitional provision is broad and their concerns that this could conceivably permit a firm to continue an engagement under the extant provisions for an indefinite period. To address this, the NZAuASB proposes a time limit of 12 months be applied to the transitional provision.

Whilst we acknowledge the concerns of the NZAuASB, we also have concerns that this introduces further complexity and inconsistency for Network firms, particularly in respect of global client relationships. A discreet piece of work that may have Global reach that could not be completed in New Zealand under the proposed NZAuASB transitional provisions would present unnecessary Global challenges for clients and firms.

Further, existing global contracts will have legal and financial consequences that must be considered by the NZAuASB in evaluating any compelling reasons for changing the IESBA transitional provisions.

In circumstances where the prohibition was extended to incorporate tax compliance services (which we do not agree should occur, as discussed above), the proposed transitional timeframe of 12 months may not allow sufficient time for the services to be delivered in line with statutory tax return timeframes (for example a tax return for a client with Dec 2022 balance date would not be due until 31 March 2024). A longer transitional period should be considered, if it is determined that one is required.

**Additional Comments - Inconsistencies noted**

In completing our submission, we identified instances where the proposed NZAuASB changes create an inconsistency within the PES 1. We have noted these for your further evaluation.

1. As noted in our response to question 3, 604.6 A1 states that providing tax return preparation services does not usually create a threat because of the stated reasons, and is relevant to all audit clients. NZ604.11 A1 states that advising on tax return preparation is a tax advisory service which might create a self review threat, notwithstanding that 604.6 A1 has stated that tax return preparation (not just advising on the preparation) does not usually create an independence threat. NZR604.15 states that tax advisory services are not permitted for PIE audit clients with NZ604.15 A1 explaining that this is because the services create a threat to independence that cannot be eliminated or reduced to an acceptable level. It appears inconsistent and confusing that preparing the tax return at 604.6 A1 does not usually create a threat, but advising on tax return preparation does.
2. NZ604.5 A1 deletes the second bullet point "Advising on the tax return treatment of past transactions". 604.6 A1 states that providing tax return preparation services does not usually create a threat for the stated reasons, including that the services are based on historical information, being past transactions. As noted above, there is an inconsistency in messaging around providing tax return preparation services and advising on tax return preparation.

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	3.1
<b>Meeting date:</b>	2 December 2021
<b>Subject:</b>	The IAASB Exposure Draft (ED): Proposed International Auditing Standard for Less Complex Entities
<b>Date:</b>	11 November 2021
<b>Prepared By:</b>	Vivian Teh

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**Action Required**

**For Information Purposes Only**

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### **Agenda Item Objectives**

1. For the Board to APPROVE the draft submission on the proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE) to the IAASB.

### **Background**

2. The IAASB issued an exposure draft of proposed ED-ISA for LCE in June 2021. Submissions close on 31 January 2022. Comments to the XRB were requested by 5 November 2021.
3. We gathered views and feedback from Board members at the September and October 2021 meetings on the key topics of focus for the New Zealand submission.
4. The XRB also held virtual feedback forums to obtain views and feedback from a broad range of stakeholders on the proposed standard in New Zealand. Formal submissions were received from Chartered Accountants Australia and New Zealand (CAANZ), the Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand (AFAANZ) and an audit practitioner.
5. Agenda item 5.2 analyses the views and feedback received from our outreach and submissions received on the ED-ISA for LCE. Agenda item 5.4 includes the submissions received.
6. The IAASB has now developed a survey as an alternative way for stakeholders to provide their views. The [survey](#) was released on 15 November 2021 and remains open until 14 January 2022. The survey contains 21-25 questions and should take approximately 20-30 minutes to complete. Staff will look to include this survey link on XRB's LCE webpage, as well as releasing an audit and assurance alert to encourage New Zealand stakeholders to participate in the survey. These results go directly to the IAASB, so the XRB will not have visibility over any New Zealand responses.
7. The IAASB is planning to host a 1.5 day conference in Paris specific to ED-ISA for LCE in late January 2022 as an opportunity to deep dive further into the key challenges that have been highlighted in their outreach activities, particularly in those areas where no clear direction has been found. The conference will be held as a hybrid meeting (physical meeting with virtual meeting functionality).
8. Conscious of the time zone difference for the Eastern participants, the IAASB is planning to host a 'delayed' version for Eastern participants, with recording of presentations from the actual day being

played, followed by a facilitated virtual roundtable sessions. Amy Fairchild, Principal and staff support for the IAASB’s LCE Task Force has reached out to staff to request assistance to facilitate the event. Staff indicated a willingness to assist and we expect to receive more information from Amy by the end of December 2021.

### **Matters to Consider**

9. Staff have developed a draft submission on the ED-ISA for LCE included in agenda item 5.3. This draft is developed from the views and feedback gathered from discussion with the Board members, outreach with New Zealand preparers, users and audit practitioners and the formal submissions received.
10. Board members are asked to provide thoughts and additional comments on the developing draft submission. The submission is due to the IAASB before the next NZAuASB meeting in February 2022. Based on the feedback from the Board, staff will update the submission and determine an appropriate process to finalise.

### **Material Presented**

Agenda item 3.1	Board Meeting Summary Paper
Agenda item 3.2	Analysis of feedback and submissions on the proposed standard
Agenda item 3.3	Draft NZAuASB Submission to IAASB
Agenda item 3.4	Submissions received by NZAuASB

## Less Complex Entities Issues Paper

1. This issues paper analyses the feedback and submissions received to date on the Proposed International Auditing Standard for Less Complex Entities (ISA for LCE) from XRB's outreach events as well as formal feedback received via submissions to NZAuASB.
2. The overall sentiment is support for the IAASB's introduction of a standalone auditing standard for the audits of LCE. The majority think that group audits should not automatically be excluded from the scope of the standard but should only be precluded from the standard if the group is genuinely complex. Concerns were raised on the transition provisions that might limit the usability of the LCE standard.

## Virtual Feedback Forums

3. Two Virtual Feedback Forums were held to gather feedback from preparers & users and audit practitioners respectively. The feedback received is summarized below.
4. Throughout this paper, collective terms are used with the following broad and approximate meanings:
  - Most                Almost all; approximately 80%
  - Majority          Approximately 60-80%
  - Many             Approximately 40-60%
  - Several            Approximately 20-40%
  - A few              Approximately less than 20%

Unless stated otherwise, use of the above terms does not necessarily indicate that the remaining participants expressed an opposing view.

### ***Virtual Feedback Forum – Preparers and Users ('Preparers and Users Forum')***

5. The Preparers and Users Forum was held on 18 October 2021. 15 participants attended the virtual feedback forum.
6. Although the forum targeted preparers and users of financial statements, most of the participants were audit practitioners or regulatory authorities, with the remaining being preparers of financial statements.
7. The following feedback was received in response to polling questions:
  - Majority of the participants thought that LCE could be used for Tier 3 and Tier 4 charities, school audits, companies that can opt out of audit or not required to have an audit. Several participants also thought it could apply to Tier 2 charities and other public sectors audit.
  - Majority is of the view that groups should not be prohibited from using LCE just because it is a group, which is consistent with Board's view. Of those who consider that groups should be included, the majority thought that auditors should access if characteristics of the group is complex while several thought that the standard should specify the type of groups that should be excluded.
  - Most participants considered that the Qualitative Characteristics (QCs) examples included in the proposed standard are appropriate and that there are no other areas that should be considered.

- Majority of the participants thought that it is appropriate for the auditor to determine whether an entity is a LCE, but would like to know why the auditor has concluded the entity is a LCE.
- There were mixed views on whether the reason for the conclusion that the entity is an LCE should be included in the audit report. This is not part of the current proposal of ED-ISA for LCE.
- Majority of the participants do not think that the words ‘less complex’ affect the perception of an LCE audit, rather that it still provides a reasonable assurance and highlights that it is the “right” amount of audit for this type of entity.
- Majority of the participants thought that it does not make a difference on which auditing standards have been applied in conducting the audit as both the proposed LCE auditing standards or ISAs provide reasonable assurance.

***Virtual Feedback Forum – Audit Practitioners (‘Audit Practitioners Forum’)***

8. The Audit Practitioners Forum was held on 28 October 2021. 26 participants attended the virtual feedback forum. Majority of the participants are smaller practices practitioner specializing in profit and/or NFP audits, with a few participants from the OAG and big 4.
9. Feedback was gathered in the form of polling questions and discussions:
  - Standalone design of the LCE standard
    - Majority likes the title of the standard and agrees with standalone nature of the ISA for LCE.
    - Most participants do not think that the use of ISA for LCE would reduce audit effort or result in a less robust audit. Participants consider that using the LCE standard would achieve audit efficiency as auditors only need to focus on things that are relevant to the LCE audit. Further the design of the proposed standard that follows the flow of the audit helps with audit efficiency.
    - Most participants believe that the effective application of the proposed standard requires knowledge of the ISAs and experience in applying them, and believe that people coming into the profession will still have sufficient skills to be able to understand the full ISAs if using LCE.
  - Authority and scope of the standard
    - Most participants agree that the proposed standard strikes the right balance between being prescriptive and allowing flexibility via professional judgement.
    - Most agree with the proposed specific prohibitions included in the Authority of the standard. This discussion excludes group audit considerations which are considered in the next section.
    - Many participants believe that the example QCs are appropriate. Other example QCs that should be considered include QCs in relation to the public sector. In the example QCs included in the ED-ISA for LCE, start-ups are identified as an indication of complexity. However, start-ups are not necessarily complex, at the very initial stage they may just incur expenses and nothing else, and therefore may not be complex.
    - Majority of the participants thought that LCE could be used for Tier 3 and Tier 4 charities, school audits, companies that can opt out of audit or are not required to have an audit. Several participants also thought it could apply to Tier 1 and 2 charities and other public sector audits. Most think the LCE standard will be useful for their practice as they mainly deal with small NFP audits.

- Participants believe that if the LCE standard were in use, largely, the QCs would mean that the practitioners would come to the same conclusion as to whether LCE standard can be applied. The documentation of professional judgement used is therefore important to justify use of LCE. However, participants think it will take a couple of years to get consistency of application in the market.
- On the Authority Supplemental Guide, participants think that it is good to have a checklist to work through to determine if LCE is appropriate to be applied. They also thought that first time implementation guidance is a good idea.
- Exclusion of group audits
  - Most participants think group should not be excluded because it is a group audit, but rather the exclusion should be based on auditors' judgement. The exclusion of groups should be based on characteristics of the group. There are NZ group structures that tend to be relatively simple which would fit the criteria of a LCE.
  - If group audits are specifically prohibited from using ISA for LCE, in the public sector it would mean a lot of LCEs would be excluded as for example, schools are held by a trust as well, and that would mean school audits would be prohibited from using ISA for LCE.
  - The following examples of group audits were identified by participants where they thought could apply ISA for LCE: NZ holding company with small subsidiaries, small trust alongside a school, NZ group with dormant subsidiaries, group of charities with simple straight forward transactions, groups with subsidiaries that trade or hold assets etc.
  - Most participants considered that the QCs should be used to determine whether the proposed standard is appropriate to use for a group audit, as compared to the use of proxies for complexity.
  - Most participants preferred the presentation of group audit requirements as a separate part in the proposed standard, although were not too fussed.
- Transitioning provisions
  - Most participants thought the need to transition to full ISAs will be rare but possible. The risk of needing to transition into full ISAs seems low as auditors would get an understanding of the entity at the start of the audit. Further, given the nature of the clients (Tier 3 and 4 charities, NFPs, small private clients), participants do not think that there will be a lot of changes to these entities that would trigger the need to transition to full ISAs.
  - Preference is to have middle ground on the transitioning provisions and not having to go back and apply all the standards from planning to completion.
- Auditors' Reporting
  - Most participants considered it appropriate to communicate to TCWG which auditing standards will be used in engagement letter, and many support the communication of the rationale for using LCE standard to TCWG for transparency. Some thought that the communication of the rationale to use LCE would be appropriate in the first year of use of the LCE standard but may not be required in subsequent years unless there are changes in circumstances. TCWG might have raise concerns as they might think it will be a second-grade audit, however participants do not think there will be an issue in explaining to them.
  - Participants prefer to keep it simple in the Audit Report so as not to distract from the Audit Opinion paragraph, which is where the users would focus on. Majority of

participants do not think referencing to ISA for LCE in audit report will cause a concern to users as they provide the same level of assurance.

- In the view of the practitioners, users are primarily concerned with what opinion is issued (unqualified or otherwise) and that the audit gives a positive assurance, not really about which auditing standards are being used. It would also be self-evident by readers of the financial statements that the entity is less complex hence the use of ISA for LCE will be deemed appropriate.
- Other matters:
  - Most participants thought the proposed maintenance approach is appropriate and that early adoption of the amended proposed standard should be permitted.
  - Majority of the participants agree that including the ISA-800 series in the proposed standard would increase the usefulness of the proposed standard in the NZ environment.

### Submissions received by NZAuASB

10. Comments to the XRB were requested by 5 November 2021. We received submissions from Chartered Accountants Australia and New Zealand ('CAANZ'), the Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand ('AFAANZ') ('the Academics') and an audit sole practitioner specializing in the audit of small Not for Profits (NFP) ('The audit practitioner'). Agenda item 5.4 includes the full submissions received from them.
11. We summarise below the key messages from their submissions:
  - All are supportive of the standalone nature of the LCE standard to assist practitioners in the audits of LCEs. The structure of the proposed standard, which follows the flow of an audit, will make it easier for practitioners to use and the condensed material makes the requirements for the audit easier to understand, which will be beneficial for audit quality. The Academics suggest that there should be greater clarity about the difference between less complex entities under this standard and small and medium entities covered by the stand-alone International Financial Reporting Standard for Small and Medium-sized Entities.
  - CAANZ represented that mixed views were heard on whether the ISA for LCEs should be a standalone standard or simply be issued as an ISA. Those in favour of it being an ISA are of the view that the standard contains the relevant requirements of the ISAs and that having it as a separate standard, including referring to the audit being conducted under different auditing standards from the ISAs in the auditor's report, risks confusing users as to the nature of the audit and the level of assurance being provided. This may cause reluctance in the market or exacerbate expectation gap. Stakeholders have expressed views that there will need to be education for the TCWG/preparer and user communities to enable them to understand that the ISA for LCEs provides reasonable assurance and is not a 'lesser' engagement.
  - The Academics agree on the title ISA for LCE because it includes the nomenclature 'Less Complex Entities' which is consistent with the scope of the proposed standard. The sole practitioner also liked the term 'less complex' used in the proposed standard.
  - Authority of the Standard: The Academics agree on excluding any quantitative threshold on the scope of ED-ISA for LCE, such as firms' size.



- Specific prohibitions (other than group audits which is discussed later): The Academics recommended that the specific prohibitions on the use of the ISA standard for listed entities and entities with certain functions (section A.7(c) of the ED-ISA for LCE) should be removed as they could be less complex.
- QCs: CAANZ is broadly supportive of the QCs included in the ED, however it may be necessary to consider if there are additional QCs or nuances to the QCs for public sector and not-for-profit entities as to what the QCs that are indicative of complexity are for these sectors.
- QCs: The Academics provides a list of characteristics of complex audits from research, these include the number of subsidiaries, number of geographic/business segments/SIC Codes, number of foreign subsidiaries, percentage of foreign subsidiaries/assets/income/sales, firm with national and multinational operations, firm age, merger or acquisition activities, ownership structure, labour intensity, technology related complexity, etc. The Academics suggest that entities in the lower half of any complexity measure can be regarded as less complex according to that measure.
- Group audits: CAANZ and the sole practitioner have expressed a strong view that less complex groups should be allowed to apply the ISA for LCEs. They would prefer that QCs of groups be included to allow the auditor to exercise professional judgement as to whether a group should be in the scope of LCE standard. However, the Academics support the standard for excluding group audits, but with an exception to allow group audits in cases where there are no other component auditors. Views gathered by CAANZ are mixed on whether group requirements should be incorporated throughout the standard or included as a separate section.
- Key principles:
  - The Academics are of the view that the approach to using the ISA requirements as a base to incorporate in the proposed standard is problematic in that the content of the proposed standard is limited to that which is already included in the suite of ISAs (that have been written and subsequently revised with a more complex entity in mind). ISAs should not be the only source for standards to be applied to LCEs and that consideration should also be given (in conjunction with IESBA) to adapting the code of ethics for auditors conducting an LCE.
  - The Academics recommend that the Essential Explanatory Material (EEM) be strengthened to remind auditors that strong and long-standing relationships, and beliefs as to management honesty and integrity these relationships foster, does not relieve the auditor of the need to remain sceptical.
- Content: The Academics recommends that ISA 610 (using the work of the internal auditor) should not be excluded from the standard as internal audit are more commonly used among family businesses that may be less complex, this would preclude these entities from applying the LCE standard.
- The Academics and CAANZ considered that the ISA 800 series should be incorporated into the standard as many of the entities to whom it would be applicable to be preparers of special purpose financial statements as allowed under their relative legislation or regulation.

- CAANZ note that most agree the auditor should make the determination of whether the entity is an LCE and whether they will use the ISA for LCEs and that this should be communicated to TCWG in the interest of transparency. This view is supported by the sole practitioner as well. Some views gathered by CAANZ were expressed that, for efficiency, the LCE determination should be communicated at the engagement acceptance/continuance phase but would not need to be communicated again unless something changed.
  - Auditors' reporting: The Academics agree with the provision of a standard reasonable assurance audit report, concludes that not including KAMs is unlikely to have a negative effect on users of LCE audit reports and support the audit report including a reference to the use of the LCE standard. Research indicates most people (including FS users) have only a limited knowledge of what an auditor does and do not appear to focus much attention on the actual content of the auditors' report.
  - Transition provisions: CAANZ gathered that some practitioners expressed a view that auditors should be allowed to top up using the ISAs on an isolated complex matter in the year of audit and then reassess the engagement and the LCE determination the following year. This is a more efficient process than having to go back and re-do audit documentation and planning. Audit is, by nature, iterative and unexpected issues do arise. Practitioners who have very small clients did not necessarily think that they would encounter such issues very often but practitioners with larger less complex entity clients believed that it may not be uncommon.
  - Maintenance of the standards: Mixed views were heard by CAANZ on this - some stakeholders are supportive of the proposed approach to update ISA for LCEs as the ISAs are updated or revised, others have expressed views that it may be simpler for practitioners who primarily perform LCE engagements if ISA for LCEs was updated on a periodic basis instead.
  - The Academic urge the IAASB to encourage users to participate in the development process of the proposed standard in order to satisfy their needs and solve any possible conceptual and practical challenges to implement this regulation. Research suggest that the user orientation was not adequately addressed during the standard setting process hence users should be included.
12. We have also received feedback from Philanthropy NZ on the proposed standard after gathering views from funders and trusts. They have established that there is no foreseeable impacts for users of audit information for LCEs given that the same quality of information will be provided via a revised audit standard. It was noted that funding organisations may not use audit information in their decision-making and only some of the small charities have an audit.
13. In addition to the virtual feedback forum, we interviewed a banker to better understand their assurance needs:
- With increasing regulatory obligations and expectation, banks are more likely to demand some form of comfort over information they receive from their clients. The level and scope of such assurance would depend on the amount of lending, risk profile of the client, the cost of the assurance engagement (vs the benefits it would convey) and other factors.
  - It is important to ensure that the assurance service is a good fit for the needs. For example, if the bank is lending a modest amount of money to a small or medium sized closely held

and managed businesses, and in the bank view inventory and working capital are the primary matters of focus, then an engagement proportionate to that need (whether a limited scope audit or AUP) and not necessarily a full scope audit of general purpose financial statements.

- In a similar vein, an audit of a LCE should be proportionate of the needs and expectations of its stakeholders. The ISAs have become very complex to read, understand and apply by an average auditor and even more difficult to digest for an average user of assurance services. In principle, supports the idea of having an auditing standard that would be easier to read and understand and apply for simpler audit engagements.
  - It is important to have flexibility in the array of available professional assurance services to be able to accommodate the assurance needs of the diverse range of SMEs in New Zealand. Even a single entity's needs change and evolve as it goes through various phases of its business cycle.
  - The fact of limited supply of professional capabilities also means that there must be products (engagements) of various levels of complexity allowing an optimal use or NZ limited supply of professional assurance providers that best matches user needs. There are levels of confidence enhancing arrangements that could be delivered by a reputable chartered accountant as long as they are appropriately defined and specified. It is important to have a holistic view that considers the needs and demands of all stakeholders.
14. We also obtained feedback from the Auditing Standards Reference Group and XRAP members on the proposed standard. This has been previously communicated to the Board and now included in Appendix 3.2.1 for reference.

## Feedback from the Auditing Standards Reference Group

### *On the need for a separate standard:*

- Recognition that if IAASB does not address audits of LCEs, another jurisdiction will.
- Not clear what is driving the separate standard and what are the benefits for the relevant parties. Still unclear with what the benefit of a separate standard is, given it takes its requirements from the ISAs.
- Concern going forward that auditors may not have a full understanding of the ISAs and therefore may not understand the abbreviated standard. There may be some auditors/audit firms that will never do a full ISA audit, so do not have the same background knowledge/ability to step up. Should familiarity with the ISAs be a precondition for use of this standard?
- This standard isn't making the audit of an LCE any easier, it requires the same work effort as an audit in accordance with the ISAs. It is therefore unlikely to meet expectations that the audit is being simplified.
- This standard may be challenging for the larger firms to adopt and fit to their firm methodology.
- Feedback on the exposure draft will need to come from a different audience, not the large/mid-tier firms.
- What other support material is planned? If a whole bunch of extra guidance is needed to support the standard, what is the point of creating a separate standard?
- Is there a need to further explain for the user what the ISA for LCE is? Would they see this as a "light audit".
- Need to understand where this fits within the suite of standards.

### *On the Authority of the Standard*

- Seems to be almost impossible to apply. Very judgemental as to what is complex. Will create practical issues for auditors who follow this standard and then others may look at it and determine that the full suite of ISAs should be applied. Bright line would be preferred.
- Some concerns over the judgement element in the applicability of the standard. Consider there could be negative outcomes in terms of audit quality. There needs to be some ability to transition between the LCE standard and the ISAs, for example, if there is a change in circumstances of the engagement or if the auditor has not made the appropriate initial judgement. The standards form the basis of the methodology – need some form of transition between suites.
- Question whether the entity or the auditor that should determine whether to have an LCE audit or a full audit?
- Many engagements are scoped out that it would be tempting to use on.
- Don't see this as a game changer for SME audits.
- Fully support the stand back requirement. Seems to be no provision to go back to the ISAs and change the terms of engagement.
- Creating two streams of standards.
- Don't consider listed, PIE necessarily drive complexity. Rather the nature of the business.
- Exclusion of group audits seems a bit arbitrary. Many group audit engagements are not complex. The way this is drafted will scope out many engagements, even at the big/mid-tier firm level in NZ. This will restrict the usefulness of the standard.

- It is unlikely the firm will establish policies and procedures that require the use of the LCE standard. It is the engagement partner who will determine the appropriate standard to use on the engagement, not the firm's policies and procedures.

***On the Structure of the Proposed Standard***

- Structure is quite logical, easy reading, symbols useful.
- Flows well, user friendly. Liked proposed format of the parts.
- Having the EEM throughout the standard is helpful, rather than in a separate section/standard.

***On the Broad Content of the Draft Standard***

- Struggling with whether the balance of essential material is right. Need to get it right first time.
- Consider use of hyperlinks could resolve problems with relying on the glossary for definitions of terms
- Think they have raised the right issues. Needs more thinking on use of experts, service organisations. What is the boundary? Simple use does not add complexity to an engagement.
- Missing requirements: When you become aware of a fraud, need to reconsider approach to the audit. Not clear that this requirement is in the LCE draft.
- Some concerns over the maintenance plan to update the ISA for LCE only every 3 years, plus implementation time.

## Feedback from members of XRAP

The XRAP members were asked the following questions:

- (a) Is a standard for Less Complex Audits going to help in the NZ auditing environment?
- (b) Is the LCE auditing standard going to make a difference?
- (c) Is an LCE audit the right product for the “small end of town” in NZ?
- (d) Is it going to cost the entity less?
- (e) Is there demand for the LCE audit?
- (f) Should the national standard setter decide if groups are included in the scope of LCE audits?

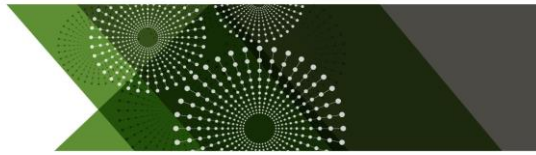
Panellists made the following comments:

- The proposed exclusion for groups provoked much discussion. Māori entities are groups, so excluded under current proposals. Could the audits of the subsidiaries underneath be audited using the LCE standard?
- Who is the audience for this audit? Is there a risk-based approach? What happens with closely held companies? Is there consideration of related parties?
- What will the funders require from small companies? Will an LCE audit be sufficient?
- A PBE<sup>1</sup> with operating expenses >\$1million is required to have an audit. What is “complex”?
- There is no need to highlight the audit was performed in accordance with LCE auditing standards if this is about providing the same level of assurance as a full audit. If an LCE audit is highlighted it runs the risk of creating a lesser product. Readers may not notice the difference between full and LCE audit is in the audit reports.
- Have the proposals been tested in practice?
- What is the difference between an LCE audit and a review?
- The audit firm might have internal policies around when to undertake an LCE audit. This could leave to audit “opinion shopping”.

The XRAP Chair noted that the development of this draft standard had been the result of long and growing international concern over the length and complexity of International Standards on Auditing, and specifically their application to every audit engagement no matter how simple the entity. His involvement in an international reference group for the IAASB Working Group indicated quite a wide range of differing views in the draft standard development, and not universal support. There is a need to keep the SME audit community in existence in NZ and we still have an “audit expectation gap”.

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<sup>1</sup> Public Benefit Entity.



Staff have prepared this developing draft submission reflecting comments received to date.

[Date]

Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, 10017  
USA

Dear Willie,

***Exposure Draft – Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE)***

Thank you for the opportunity to comment on this exposure draft. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the ED-ISA for LCE in the attachment.

The External Reporting Board (XRBB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards, including professional and ethical standards, in New Zealand. The XRBB's vision is that New Zealand prospers through effective decision making informed by high-quality, credible, integrated reporting. The XRBB enables high quality, credible, and integrated reporting through the provision of robust frameworks and standards that are internationally credible, while being relevant to Aotearoa New Zealand so that reporting and assurance in New Zealand promotes trust, confidence, transparency and accountability. The NZAuASB has been delegated responsibility by the XRBB for developing and issuing auditing and assurance standards.

In formulating this response, the NZAuASB sought input from a range of targeted New Zealand constituents. A webinar was held to provide an overview of the proposed ISA for LCE. Separate virtual feedback forums were held with a focus on smaller audit firms and sole practitioners and separately to engage with users of audited financial statements. However, engagement with users was limited. The NZAuASB also received submissions from New Zealand stakeholders, including from professional accountancy body, academics and audit practitioners during the ED-ISA for LCE exposure period in New Zealand. Their feedback helped inform the NZAuASB in developing its response.

Our submission responds to the key questions posed by the IAASB from the New Zealand perspective, rather than to comment on the drafting of the ED-ISA for LCE. The submission will not therefore address questions raised by IAASB on Section 4D *Overall Design and Structure of ED-ISA for LCE* and Section 4E *Content of ED-ISA for LCE*.

The NZAuASB is strongly supportive of the IAASB's effort in putting together a draft ED-ISA for LCE in a short period of time acknowledging the urgency to act to reduce the high risk of fragmentation of auditing standards at a global level. We also appreciate the IAASB's LCE working group efforts to working collaboratively with national standard setters, including provision of useful toolkits and materials to assist in our outreach to New Zealand stakeholders.

*Overarching comments*

The NZAuASB is supportive of the IAASB's introduction of a separate standalone auditing standard for less complex

entities taking in consideration our views on the key areas where the IAASB may need to further reflect and refine the approach to the proposed standard. However, we highlight that the ED-ISA for LCE is an indictment on the scalability of the ISAs highlighting that the core auditing requirements can be condensed into a much more readable and condensed document, which is easier to navigate and understand.

There are concerns that a separate standard might signal that an LCE audit is less than an ISA audit, or imply a two-tier auditing environment. Further, given that ISA for LCE contains the relevant requirements of the current suite of ISAs, the separate standalone nature of it may cause reluctance in the market or increase expectation gap. There is a need to raise awareness, educate and engage with the TCWG and users for them to understand that the ISA for LCE is similar to the ISAs, which provides reasonable assurance and is not a second-grade audit. The user perception issue of reduced work effort and/or audit quality should also be addressed.

At the same time, the NZAuASB recognise that proposed standard might be useful to small firms or sole practitioners given the nature of their clients, which are largely less complex in nature. We believe the standard will be beneficial for audit quality. The structure of the proposed standard, which follows the flow of an audit, will make it easier for practitioners to use and the condensed material makes the requirements for the audit easier to understand and enable auditors to focus on the relevant audit requirements to an LCE audit.

Nevertheless, the NZAuASB considers that the transitioning from the ISA for LCE to full ISAs may happen more often than the IAASB may expect, and that more guidance is required in this area. In an increasingly complex environment, change is constant and might trigger a reassessment as to whether the ISA for LCE remains appropriate more frequently than not. More flexibility in the transitioning provisions is needed to avoid limiting the usability of the proposed standard.

To enhance the usability and applicability of the proposed LCE standard, we recommend that the IAASB to consider including group audits in the scope of the ED-ISA for LCE depending on the complexity of the groups. Further, ISA-800 audits should also be included in the scope of the ED-ISA for LCE as it applies to entities that are less complex and will therefore benefit from being allowed to make use of the proposed standard.

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

Yours sincerely,

**Robert Buchanan**  
**Chairman**  
Email: [robert@buchananlaw.co.nz](mailto:robert@buchananlaw.co.nz)



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

### IAASB Exposure Draft – Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE)

Note: As explained, this submission does not include questions on Section 4D *Overall Design and Structure of ED-ISA for LCE* (Question 8) and Section 4E *Content of ED-ISA for LCE* (Question 9 – 12).

#### Section 4A – Overarching Positioning of ED-ISA for LCE

- 1) Views are sought on:
- The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?
  - The title of the proposed standard.
  - Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).

#### Response:

- a) The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?

The NZAuASB supports the approach of the separate standalone nature of the ED-ISA for LCE. The proposed standard will be helpful in assisting practitioners to navigate and scale the full suite of International Standards on Auditing (ISAs) which have become increasingly lengthy and difficult to navigate. The standalone nature of the proposed standard which does not allow topping up with reference to the full ISAs requirements, avoids the issue of having to apply the LCE standard and refer to ISAs if there were no guidance included in the LCE standard. Generally, the stakeholders we engaged with similarly agree with the standalone nature of the ISA for LCE. The academics suggested that if the standalone nature is maintained, more clarity on the differences between entities considered 'less complex' and 'small and medium sized' is needed for users, as entities and jurisdictions that adopted International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) for financial reporting purposes could be interested users of ED-ISA for LCE.

An alternative view noted from outreach in favour of the proposed standard being a part of the ISAs notes that the proposed standard contains the relevant requirements of the current suite of ISAs, and results in reasonable assurance. Separating it and labelling it as something different or "less" runs the risk of confusing and creating a perception problem, possibly causing reluctance to use the standard. Including the standard as part of the ISA suite may avoid this risk.

Nevertheless, the NZAuASB has some concern that a separate standalone standard might signal that an LCE audit is *less* than an ISA audit, or imply a two-tier auditing environment. This is also exacerbated by the fact that the auditor's report would need to state which auditing standards have been applied in the audit of an entity, which risks confusing users as to the nature of the audit and the level of assurance being provided. The NZAuASB highlights the need for ongoing education to avoid this misperception.

We note from our outreach with smaller audit firms and sole practitioners that they do not think referencing ISA for LCE in the auditor's report will cause a concern to users of financial statements as it provides the same level of assurance. These practitioners consider that users are primarily concerned with the audit opinion (unqualified or otherwise) and whether audit opinion provides the highest possible level of assurance, and less about which auditing standards that have been used. Furthermore, it might be self-evident to the users of such financial statement that the entity is less complex in nature and hence the use of ISA for LCE will be understood as appropriate. It should be noted that however, our outreach has limited users' representation hence we still believe that this could be a perception issue that should be addressed by the IAASB.

Concerns were also expressed that if audit practitioners primarily use the LCE standard once issued, they may no longer have the competency to conduct audit using full ISAs. There may be some auditors or audit firms that will never do a full ISA audit due to its client size and nature, therefore do not have the knowledge or ability to step up if needed in the future. The IAASB should consider the familiarity with the ISAs to be a precondition prior to using the proposed standard. This is also important to enable auditors to adopt transition provisions correctly if there is a need to transition from LCE to full ISAs.

We also considered if the use of the proposed standard should be communicated with Those Charged with Governance (TCWG). From our outreach, most participants considered it appropriate for auditors to determine and to communicate to Those Charged with Governance (TCWG) which auditing standards will be used in engagement letter, and many supports the communication of the rationale for using LCE standard to TCWG for transparency purposes. Some participants thought that the communication of the rationale to use LCE standard would be appropriate in the first year of use and communicate on exception basis if there has been changes in circumstances. There is some concern that TCWG might think that LCE standard will be a second-grade audit, however participants do not think there will be an issue in explaining to them.

**b) The title of the proposed standard.**

The NZAuASB has some concern that the title of the proposed standard, "International Standard on Auditing for Audits of Financial Statements of Less Complex Entities" might signal that an LCE audit is less than an ISA audit. The use of the term "less" in the title increases this risk.

The NZAuASB also has a concern that the title could prompt clients to request auditors to adopt LCE on the perceived perception that it may require reduced audit work effort and hence could be cheaper.

Our key issue is therefore around the messaging about the proposed standard, especially to the preparers and the users of the financial statements. It needs to be highlighted or strengthened that the level of assurance and audit quality under both the LCE standard and ISAs is the same.

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

c) **Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).**

There is a need to raise awareness, educate and engage with the TCWG and users to enable them to understand that the ISA for LCE is similar to the ISAs, which provides reasonable assurance and is not a second-grade audit. The user perception issue of reduced work effort and/or audit quality should also be addressed.

2) **Do you agree with the proposed conforming amendments to the IAASB Preface (see paragraphs 39-40)? If not, why not, and what further changes may be needed?**

**Response:**

The NZAuASB agrees with the proposed conforming amendments to the IAASB Preface.

*Section 4B – Authority of the Standard*

3) **Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular:**

- a) **Is the Authority as presented implementable? If not, why not?**
- b) **Are there unintended consequences that could arise that the IAASB has not yet considered?**
- c) **Are there specific areas within the Authority that are not clear?**
- d) **Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?**
- e) **Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?**

**Response:**

a) **Is the Authority as presented implementable? If not, why not?**

The Authority of the Standard attempts to strike the right balance between being prescriptive (specific prohibitions) and allowing flexibility via professional judgement (qualitative characteristics). The NZAuASB agree with not including any quantitative threshold for the scoping of the standard, however is concerned that the proposed prohibitions seem somewhat arbitrary (discussed further in Question 4 below) and together with the transition provisions (discussed in Question 13 below), will limit the usability of the proposed standard.

We consider there to be too many layers of decision makers in the approach to scoping the proposed standard. Leaving to audit practitioner's judgement may have gone a bit too far, as audit practitioners may justify applying ISA for LCE even though the audit entity may not necessarily meet LCE criteria, which could impair audit quality, or unable to achieve reasonable assurance due to the exclusion of ISA requirements relating to complex matters from the ISA for LCE. Legislative or regulatory authorities or relevant local bodies with standard-setting authority could further refine the scoping of the standard, and the firm needs to take an active role in setting proper policies and procedures in the use of the proposed standard. The IAASB could also develop a "library" or checklist and implementation guide to work through to determine if classification as LCE is appropriate.

**b) Are there unintended consequences that could arise that the IAASB has not yet considered?**

If the LCE standard were in use, largely, the QCs should mean that the practitioners would come to the same conclusion as to whether LCE standard can be applied, using the 'if in doubt, you are out' concept.

The judgement involved in the consideration of the QCs by the firm or engagement level in the scoping of the standard might create inconsistency in practice whereby some auditors might apply the ISA for LCE and others may determine that the full ISAs should be applied instead for the same entity (e.g., some firms may elect not to apply the ISA for LCE). This may cause inconsistency in the market and may result in 'opinion shopping' by the clients, especially if there is a perception that LCE audits may cost less but achieve the same level of assurance.

Further, given that there are many prohibitions and QC considerations, it may be deemed safer to apply the full ISAs than risk having to transition to full ISAs mid-way through the audit. This reduces the attractiveness of the standard.

The current specific prohibitions also seem to have scoped out many entities than it would appear appropriate to include. Prohibition of PIEs and Groups could result in very simple PIE and groups being excluded (these are being further discussed in Question 4 and Question 22 below) which limits the usefulness of the proposed standard.

**Commented [VT1]:** Does Board agree with this? This should be read in conjunction with response to Q4 below. If Board agree with this sentence we would engage specifically with the FMA on their views on this prior to finalising the submission.

**c) Are there specific areas within the Authority that are not clear?**

The Authority of the Standard, as currently set out, is clear in articulating the message it intends to deliver.

**d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?**

The NZAuASB is of the view that the Authority, as set out, achieves the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

**e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?**

The NZAuASB is of the view that the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate.

- 4) Do you agree with the proposed limitations relating to the use of ED-ISA for LCE? If not, why and what changes (clarifications, additions or other amendments) need to be made? Please distinguish your response between the:
- a) Specific prohibitions; and
  - b) Qualitative characteristics.

If you provide comments in relation to the specific prohibitions or qualitative characteristics, it will be helpful to clearly indicate the specific item(s) which your comments relate to and, in the case of additions (completeness), be specific about the item(s) that you believe should be added and your reasons.

Response:

**a) Specific prohibitions**

The NZAuASB considered the prohibitions in ED-ISA for LCE were appropriate, except for the specific prohibitions on group audits. The NZAuASB considers that there are group audits that are non-complex in nature and should be considered in the scoping of the proposed standard. Group audits considerations are being discussed in Question 22 below.

We note that the academics recommend that the specific prohibitions on the use of the proposed standard for listed entities should be removed as there are very simple listed entities that would meet the criteria of a LCE.

The academic also suggest that entities with certain functions (as defined in section A.7(c) of the ED-ISA for LCE) should be removed as the requirement to specifically prohibit a particular type of audit from using ISA for LCE may not be necessary. The arguments for this are that entities will voluntarily choose the appropriate level of assurance that suits the requirements of their financial report users, and it is not appropriate to impose a particular requirement that certain entities should use ISAs across all jurisdictions when it will not be appropriate in some settings.

**b) Qualitative characteristics (QCs)**

In our outreach, many participants believe that the example QCs are appropriate. One participant noted that in the example of QCs included in the proposed standard, entities in the start-up stage are an indication of complexity. However, start-ups are not necessarily complex, at the very initial stage they may just incur expenses and nothing else, and therefore not complex.

Further, an entity who has few staff involved in its financial reporting may be inadequately resourcing its financial reporting function. If there are no independent directors on a company's board this may be an indicator of deficient governance structure. It is unclear why such matters may indicate that an entity is less complex.

Other QCs that may indicate complexity include whether an entity operates under financial or operational covenants (imposed by their creditors for example) may have a similar implication for it being subject to higher level regulatory supervision or oversight. It was also noted that it may be necessary to also consider if there are additional QCs or nuances to the QCs for public sector and not-for-profit entities as to what the QCs that are indicative of complexity are for these entities.

The academic research group provides a list of characteristics of complex entities from research, and it indicates that the greater the number of subsidiaries, number of geographic/business segments/SIC Codes, number/percentage of foreign subsidiaries, percentage of foreign assets/income/sales, firm with national and multinational operations, firm age, labour intensity, technology related complexity, emergence of merger or acquisition activities, complex ownership structure, etc, the more complex an entity is. Research data analysis suggests that entities in the lower half of any complexity measure can be regarded as less complex according to that measure. We agree that these are relevant characteristics that should be considered as the QCs of complexity in the scoping of the proposed standard, and we note that some of these characteristics described have already been included as example QCs of complexities in the proposed standard.

Paragraph A9 of ED-ISA for LCE requires auditors to consider areas where an entity may exhibit characteristics that would make it inappropriate to use the proposed standard to audit the entity. However, the NZAuASB are of the view that the ED does not provide adequate application material for how auditors are to assess these areas.

Paragraph 28 of the supplemental guidance for the authority of the proposed standard does include guidance for auditors on this matter. However, the supplemental guidance is not authoritative. We are of the view that information included in those paragraphs are essential explanatory material that should be included within the standard. Also, both the proposed standard and the supplemental guidance often refer to quantifying adjectives of "few", "multiple" and "many" (e.g. few employees vs many employees, few levels of management vs multiple levels of management, few products vs many products etc.). These may prove difficult to apply in practice. For example, at what point few employees become many? When there are "few" suppliers and when they become "many"? We recommend that the IAASB include more guidance or provide more clarity on this. This could either be recommending a number range to define these terms and a consideration for firms to further define when setting the firm's policies and procedures in the scoping and use of the proposed standard.

Overall, we are concerned at the potential risk that a lack of clarity on QCs would result in inconsistent application of the proposed standard and undermine its credibility. We consider that, to reduce the risk of inconsistent application of the QCs, in practice, such judgement would most likely be included as part of policies and procedures set at the firm level and overseen by the quality management team.

The NZAuASB recommends that the proposed standard provide further clarity on the characteristics that auditors would need to consider as QCs. Further, part of the Supplemental Guidance on Authority materials that addresses QCs should be included in the standard as essential explanatory material. It should be emphasised that it is not a boilerplate template for the auditors to use and the exercise of judgement is crucial in reviewing the QCs. The standard should also either define blanket QCs that would apply to all areas or define QCs for each area (e.g., for structure, the degree of separation between owner and management, the degree of separation between TCWG of the entity and day to day operations etc.).

- 5) **Regarding the Authority Supplemental Guide:**
- a) **Is the guide helpful in understanding the Authority? If not, why not?**
  - b) **Are there other matters that should be included in the guide?**

**Response:**

- a) **Is the guide helpful in understanding the Authority? If not, why not?**

The NZAuASB thought the guide is helpful to gain a better understanding of the Authority of the standard. The further examples of QCs included in the supplemental guide would assist the firms and auditors in

establishing the policies and procedures, and in assessing if an entity could apply ISA for LCE or otherwise. However as discussed in question 4 above, we are of the view that the examples of QCs included in the Supplemental Guide should instead be part of the proposed standard to provide more clarity what the QC considerations are.

**b) Are there other matters that should be included in the guide?**

In our outreach, New Zealand stakeholders suggested the development of a “library” or checklist to work through to determine if classification as LCE is appropriate. First time implementation guidance to facilitate consistent exercise of professional judgement would be especially helpful.

The NZAuASB did not identify other matters that should be included in the guide in relation to the Authority Supplemental Guide.

**6) Are there any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalisation?**

**Response:**

The NZAuASB does not have any further comments.

*Section 4C – Key Principles Used in Developing ED-ISA for LCE*

**7) Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C. Please structure your response as follows:**

- a) The approach to how the ISA requirements have been incorporated in the proposed standard (see paragraphs 74-77).
- b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78- 80).
- c) The principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management (see paragraphs 81-84)
- d) The approach to EEM (see paragraphs 85–91) including:
  - i. The content of the EEM, including whether it serves the purpose for which it is intended.
  - ii. The sufficiency of EEM.
  - iii. The way the EEM has been presented within the proposed standard.

**Response:**

- a) The approach to how the ISA requirements have been incorporated in the proposed standard (see paragraphs 74-77).

The IAASB has used the requirements in the ISAs as the basis for the requirements within ED-ISA for LCE to achieve the objective of a reasonable assurance engagement. This was accomplished by replicating and adapting requirements from the ISAs that are considered core to an audit, for the nature and circumstances of less complex entities as contemplated by the proposed standard. Audit procedures that are not relevant to an LCE, as contemplated by the proposed standard (e.g., procedures specific to listed entities), are not included within ED-ISA for LCE.

The NZAuASB considers the IAASB’s overall approach to the requirements included in the ED is appropriate. We conclude that not including KAMs is unlikely to have a negative effect on users of LCE

audit reports. However, as the proposed standard is based on requirements included in the current suite of ISAs (that have been written and subsequently revised with a more complex entity in mind), care needs to be taken to ensure the requirements included are relevant for less complex entities.

Compared to publicly listed entities, private entities have fewer incentives to report high quality earnings and the cost of switching auditors for small business is relatively low. Relatedly, the users of, and use for, audited financial information are different in private companies. Further, less complex entities are more likely to be audited by a small practice. Smaller professional practices conduct audits in smaller teams, with different relationships among team members, and rely on different knowledge sharing and support networks through which to support firm and engagement level quality. In smaller practices, threats to independence manifest themselves in different ways, and threats from economic bonding may not be as significant.

We recommend that relevant requirements from ISA 610 *Using the Work of the Internal Auditor* should be included in the ISA for LCE as internal audit is more commonly used among family businesses that may be less complex than the IAASB understood to be the case. Among family businesses, internal audit was more common than external audit, and that unlike the situation in listed public companies, internal audit is seen in family businesses as a substitute rather than a complement to external audit. Excluding the internal audit requirements may preclude auditors from using the proposed standard when auditing these entities.

**b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78- 80).**

The objectives in ED-ISA for LCE align, where appropriate, to the equivalent ISA objectives. However, recognizing the structure and flow of ED-ISA for LCE, in some Parts there may be numerous topics addressed for which the equivalent ISAs for these individual topics would each have their own objective(s). Therefore, some of the objectives in ED-ISA for LCE may be more broadly stated than would be found in the ISAs. The NZAuASB considers that it is difficult to evaluate whether stating objectives in a broader way has an impact on their implementation. However, the overall approach seems reasonable and appropriate.

**c) The principles in relation to professional scepticism and professional judgement, relevant ethical requirements and quality management (see paragraphs 81-84)**

The NZAuASB are of the view that the proposed standard's approach to professional scepticism and judgement, ethical requirements and quality management are appropriate, taking into consideration of the academics' view below. On the basis of the extant academic research, the academics are of the view that the coverage of material on relevant ethical requirements and firm level quality management (Section 1.2), as well as professional scepticism (Section 1.4.5 – 1.4.6), needs to be elaborated upon in order to reflect unique but important characteristics of less complex entity audits.

The academics recommend that the IAASB liaise with IESBA to consider the appropriateness of Section 600 of the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) and the current restrictions on the provision of non-assurance services to less complex clients. They recommend that the IAASB give greater attention to the unique independence issues that are present in audits of less complex entities and liaise with the IESBA with a view to being satisfied that current ethical requirements around the provision of non-assurance services (i.e., Section 600 of the Code) are fit for purpose and complement the application of the proposed standard. There are views where the knowledge spill overs associated with the provision of non-assurance services such that audit quality is improved. The opposing view finds that audit quality decreases with the provision of non-



assurance services to privately held clients. Nevertheless, it is noted that the performance of risk assessment in an audit of less complex entities is a challenge, and the increased knowledge (and the positive spill over effects often associated with the provision of non-assurance services) may go some way to alleviating this threat to audit quality.

In terms of quality management, the academics suggest that the IAASB reinforces the principles of firm and engagement level quality control in an audit of a less complex entity by supplementing the material currently presented in the proposed standard to reflect important differences between small to medium practices and those larger practices for which much of the material in ISQM 1, ISQM 2 and ISA 220 is written. The differences in the structure and organization of the small and medium practices that perform these engagements and there is a need for additional EEM in Section 1 as it relates to firm quality management and Section 3 as it relates to engagement quality management. Research highlights that auditors in small and medium practices do not have the same opportunities as auditors in larger practices to seek advice from colleagues. Small to medium practices, instead, rely on other mechanisms to compensate for this knowledge deficit. This can impede the effective application of the proposed standard for less complex entities and even cloud judgments as to whether the proposed standard remains applicable in circumstances of increased complexity.

- d) **The approach to EEM (see paragraphs 85–91) including:**
- i. **The content of the EEM, including whether it serves the purpose for which it is intended.**
  - ii. **The sufficiency of EEM.**
  - iii. **The way the EEM has been presented within the proposed standard.**

The NZAuASB considers the way the EEM has been presented within the proposed standard is appropriate, i.e., having the EEM throughout the standard, rather than as a separate section within the proposed standard, is helpful.

On the sufficiency of EEM, the NZAuASB is of the view that there is a risk that too much explanatory material might have been excluded. The included EEM may be inadequate for consistent application of the requirements in the proposed standard. For example, the proposed standard has excluded almost all the application material pertaining to the use of audit sampling. A similar lack of application material exists in relation to use of substantive analytical procedures.

The academics recommend that the EEM be strengthened to remind auditors that strong and long-standing relationships, and beliefs as to management honesty and integrity that these relationships foster, does not relieve the auditor of the need to remain sceptical. The stronger relationship between the auditor and client management in audits of LCE gives rise to unique threats to the exercise of an appropriate level of scepticism that are not as significant in audits of more complex entities. Research highlights that the increased significance of social bonding in audits of private companies (and by inference, audits of less complex entities) has implications for the exercise of professional scepticism. Research has shown that objectivity can be compromised when the auditor identifies with their client and when a social bond exists between the auditor and the client by way of audit firm alumni associations.

It is recommended that the IAASB elaborate on the EEM in the following paragraphs:

- a. Paragraph 1.2.1 - to increase the salience of the unique challenges in small to medium practices and to reinforce the need to manage these unique threats to quality management

- b. Paragraph 3.2.4 - to ensure the practitioner is cognisant of the need to avoid inappropriately influencing a subordinate's judgments through their direction, supervision and review, and
- c. Section 6.1.1 – to reinforce the importance of contemporary risk assessment, based on business risk, in achieving a reasonable level of assurance and reminding auditors of LCE that the contemporary approach to risk assessment is required.

In addition, while the IAASB indicated that additional supplemental guidance would be issued in the future, it is not feasible to assess the impact of such guidance at present. Also, excluded EEM is the primary reason for the proposed standard being shorter than the ISAs. This achievement is likely to be adversely affected by the need to add more supplemental guidance in the future, which will not be authoritative in nature.

*Section 4F – Other Matters*

**13) Please provide your views on transitioning:**

- a) **Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?**
- b) **What support materials would assist in addressing these challenges?**

**Response:**

- a) **Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?**

NZAuASB supports the separate standalone nature of the proposed standard, where no topping up to ISAs is allowed. This avoids the issue of having to apply the LCE standard and refer to ISAs if there were no guidance included in the LCE standard.

The IAASB expects the transitioning to only happen in rare circumstances. The IAASB is of the view that when auditors accept/continue an engagement they have sufficient information to adequately consider the QCs. Information obtained post acceptance/continuance is unlikely to impact this consideration. The ED notes that accounting estimates may be the exception, where it is possible for further information to emerge, or new transactions might be initiated subsequent to accepting/continuing an engagement that might affect their initial conclusion.

When considering the QCs of an entity to determine if it is a LCE at the client acceptance/continuance phase, the assessment is usually made by way of review of prior year signed financial information (if any), latest interim financial information, independence and background checks and/or discussion with management. Any reliance on superseded information or on management to provide information, carries a risk of omission of information that may undermine the evaluation of the complexity of the entity.

If the entity is indeed complex in light of new information obtained during the execution of the audit, the realisation that the ISA for LCE is not appropriate may be too late, which will trigger the transition to the full ISAs. As such we believe that the transition from ED-ISA for LCE to the full ISAs may happen more often than IAASB might hope.

In an increasingly complex environment, change is constant and might trigger a reassessment as to whether ISA for LCE remains appropriate more frequently than not. Further, the transitioning to ISA mid-way through the audit would be an enormous task, particularly if the audit is almost complete.

The NZAuASB considers that more flexibility in the transitioning provision is needed to avoid limiting the usability of the proposed standard. For example, transition requirements that allowed auditors to top up requirements based on full ISAs for an isolated complex matter in the financial year where they were identified, with a requirement for reassessment of the LCE determination for the following financial year. This is a more efficient process than having to go back and re-do audit documentation and planning. Audit is, by nature, iterative and unexpected issues do arise.

However feedback from smaller audit firms and sole practitioners in New Zealand, whose audit clients are small or micro charities, other not-for-profit entities or small private companies, agreed with the IAASB view that the need to transition to full ISAs will be rare but possible. The risk of needing to transition into full ISAs seems low as auditors would get an understanding of the entity at the start of the audit and they do not think that there will be a lot of changes to the entities that would trigger the need to transition to full ISAs. Audit practitioners who have very small clients did not necessarily think that they would encounter such issues very often but audit practitioners with larger less complex entity clients believed that it may not be uncommon.

**b) What support materials would assist in addressing these challenges?**

Other than as mentioned in 13(a) above, the NZAuASB recommends that the IAASB look to develop guidance on the 'first time' adoption of ISA for LCE, for example ensuring auditors ask the right questions at the client acceptance/continuance phase to enable auditors to perform the assessment if using ISA for LCE is appropriate. The IAASB should also encourage early planning of the audit to ensure any indicators of complexity will be identified earlier, thus minimising the risk of transitioning too late to full ISAs. The IAASB should also consider if quantitative consideration based on materiality should be included in assessing the need to transition to full ISAs.

Transitioning provision requirements should also be included as part of the proposed that it will be authoritative in nature, with guidance on transitioning procedures be included as a supplemental guidance to the proposed standard.

**14) Do you agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance?**

**Response:**

The NZAuASB considers the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance to be appropriate. Considerations to update the ED-ISA for LCE should be made as and when there is ISA revision on the same topic. This minimizes gaps in the mandatory requirements in both ED-ISA for LCE and ISA and promotes consistency of application and audit quality.

An alternative view noted from our outreach is that it may be simpler for practitioners who primarily perform LCE engagements if ISA for LCEs was updated on a periodic basis instead.

- 15) For any subsequent revisions to the standard once effective, should early adoption be allowed? If not, why not?

**Response:**

The NZAuASB agree with IAASB's view that early adoption should be allowed for any subsequent revisions to the standard once effective.

- 16) Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.

**Response:**

The NZAuASB recommends that requirements relating to the ISA 800-series should be included in the ISA for LCE. In New Zealand, only companies that meet the requirements of 'large' as defined by the Financial Reporting Act 2013 are required to be audited and prepare general purpose financial reports. This means that many entities that are not 'large' are excluded from audit. However, some entities still require financial statements to be audited for different purposes, such as tax. These entities would prepare special purpose financial reports (SPFR) in accordance with minimum requirements set by Inland Revenue. Certain financial institutions also require SPFR financial statements to be prepared for banking and lending purposes. Although there are no requirements for these to be audited, there is an option to get these audited to provide assurance over the financial statements prepared. In many instances, ISA-800 series audits might apply to entities that are less complex and will therefore benefit from being allowed to make use of the proposed standard, with clear requirements outlined on the authority of ED-ISA for LCE for these audits.

- 17) In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows:
- Whether the proposed standard can, and will, be used in your jurisdiction.
  - Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.
  - Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).

**Response:**

- Whether the proposed standard can, and will, be used in your jurisdiction.
- Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

The NZAuASB believes that the proposed standard would be useful in our jurisdiction and meet the needs of stakeholders depending on the scoping of the LCE standard in the New Zealand environment, as discussed in Section 4A and 4B above.

Given the statutory audit thresholds in New Zealand, the amount of judgement required by the ED-ISA for LCE, the uncertainty around whether the practitioner might be required to transition to the ISAs and the knowledge and skill base of practitioners in New Zealand, there is still a lack of clarity as to when the

standard might be used in New Zealand. Further, given that ISA for LCE contains the relevant requirements of the current suite of ISAs and the separate standalone nature of it may cause reluctance in the market or increase expectation gap. The NZAuASB notes that larger audit firms may have already developed firm methodology to audit very simple or less complex entities, and mid-tier firms may continue with their methodology to perform their audit, which may make the proposed LCE standard redundant.

At the same time, the NZAuASB recognises that proposed standard might be useful to small firms or sole practitioners given the nature of their clients, which are largely less complex in nature. The majority of the participants in our outreach events thought that using the proposed standard would achieve audit efficiency as auditors only need to focus on matters and audit requirements that are relevant to an LCE audit. They think LCE could be used for small or micro charities with annual expenses of less than \$2million, school audits, companies that can opt out of audit or not required to have an audit. Several participants also thought it could apply to larger charities and other public sectors audit. Most participants agreed that the LCE standard will be useful for their practice as they mainly deal with small not-for-profit audits.

We also note that banks are increasingly requiring more and more assurance (including audits) from their micro client lenders. Although the level and scope of such assurance would depend on the amount of lending, risk profile of the client, the cost of the assurance engagement (vs the benefits it would convey) and other factors, there is an increasing demand in this market. ISA-800 audits (as discussed in Question 16 above) if included in the scope of LCE standard would increase its usefulness and applicability in New Zealand context.

As discussed in Question 1 of this submission, we note that there may be a perceived two-tiered audit with the introduction of ED-ISA for LCE. The key issue to address is in the messaging to stakeholders of an audit, i.e., users and TCWG. There seems to be knowledge gap on what the proposed standard (or what an audit) entails, and if it would result in reduced work effort and therefore audit fee.

The academics also urge the IAASB to encourage users to participate in the development process of the ED-ISA for LCE in order to satisfy their needs and solve any possible conceptual and practical challenges to implement this standard. Research suggest that the user orientation was not adequately addressed during the standard setting process in the past which may undermine the usefulness of the standard to meet the need of users.

**c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).**

The NZAuASB considers the amount of judgement involved in the scoping of proposed LCE standard, the uncertainty that might require a practitioner to transition to the ISAs, and perception of proposed LCE standard, all of it being considered in the questions above, are the challenges for implementation.

There is a need to raise awareness, educate and engage with the TCWG and users to enable them to understand that the ISA for LCE is similar to the ISAs, which provides reasonable assurance and is not a second-grade audit. The user perception issue of reduced work effort and/or audit quality should also be addressed. First time implementation guide and flexibility on transitional provisions should also be considered which would otherwise limit the usability of the standard.

18) Are there any other matters related to ED-ISA for LCE that the IAASB should consider as it progresses the proposed standard for finalisation?

**Response:**

The NZAuASB does not have any further comments.

*Section 4G - Approach to Consultation and Finalization*

19) What support and guidance would be useful when implementing the proposed standard?

**Response:**

The NZAuASB does not have any further comments other than those described in this submission.

20) Translations—recognizing that many respondents may intend to translate the final ISA for LCE in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing ED-ISA for LCE.

**Response:**

No comment on translation.

21) Effective Date—Recognizing ISA for LCE is a new standard, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA for LCE.

**Response:**

The Board believes the proposed effective date and permission for earlier application is appropriate.

*Section 5 – Group Audits*

22) The IAASB is looking for views on whether group audits should be excluded from (or included in) the scope of ED-ISA for LCE? Please provide reasons for your answer.

**Response:**

The NZAuASB considers that there are group audits that are non-complex in nature and therefore there is significant concern regarding the blanket prohibition of group audits from applying the ED-ISA for LCE. The exclusion of groups could potentially impact the uptake of the standard once issued, and therefore undermine its usefulness and reduce its applicability in New Zealand.

In the public sector, if group audits are specifically excluded from the scope of the ISA for LCE, it would mean a lot of LCEs would be excluded, as for example, schools are held and managed by a trust, and that would mean school audits would be prohibited from using ISA for LCE. Other examples of non-complex group structures that could fit the criteria of LCE include entities that have a subsidiary that trades or hold assets, smaller for-profit entities with dormant subsidiaries, investment holding parent with a trading subsidiary, Māori entities, etc.

Most of the participants in our feedback forums held a similar concern and agreed that groups should not be excluded just because it is a group, but rather based on the complexity of the group structures. However, the academics support the proposed standard for excluding group audits, but with an exception to allow group audits in cases where there are zero or immaterial involvement of component auditors.

The NZAuASB notes that the inclusion of groups would result in the proposed standard becoming longer to apply in practice. When a group needs to consolidate financial statements, the consolidation is likely to result in potentially complex issues in many (but not all) instances (even for relatively simple and straightforward groups). However, there is still a strong appeal for groups to be included in the scope of ED-ISA for LCE.

- 23) Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard. In particular:
- Would you use the standard if group audits are excluded? If not, why not?
  - Approximately what % of the audits within your firm or practice would be group audits that would likely be able to use ED-ISA for LCE (i.e., because it is likely that such group audits could be considered less complex entities for the purpose of the proposed standard) except for the specific exclusion?
  - What common examples of group structures and circumstances within your practice would be considered a less complex group.

Response:

Not applicable as NZAuASB is not a public practice.

- 24) If group audits are to be included in the scope of ED-ISA for LCE, how should be done (please provide reasons for your preferred option):
- The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used ("Option 1 - see paragraph 169); or
  - ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

Response:

The NZAuASB considers that Option 2, where ED-ISA for LCE sets out QCs for complexity specific to groups is more appropriate, to allow the auditor to exercise professional judgement as to whether groups can be scoped in as a LCE, as compared to the use of proxies for complexity. At our outreach events, most participants also considered that QCs should be used to determine whether the proposed standard is appropriate to use for a group audit.

The proxies of complexities examples provided, although easier to apply in practice, carries the risk that the ability to use the standard could drive other decisions about the audit, such as whether component auditors are used or not. The use of component auditors does not necessarily mean the group is complex. It is probably more relevant to consider the degree of involvement of component auditors in the group audit, this could indicate the degree of complexity of the group structure which necessitate the heavy reliance of component

auditors. However, it is conceptually inconsistent with the IAASB's position that it is the "complexity of the entity" and not the auditor's response that determines complexity. Adopting this approach would be a departure from this principle (i.e., whether auditors want to use a component auditor or not (an audit response) determines whether the group is complex).

- 25) **Are there other ways that group audits could be incorporated into the scope of the proposed standard that is not reflected in the alternatives described above? For example, are there proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider?**

**Response:**

The NZAuASB considers that Option 2 is appropriate for the scoping of group audits. Auditors will be required to consider such QCs regardless of whether they are going to use component auditors.

- 26) **If group audits are included in ED-ISA for LCE, how should the relevant requirements be presented within the proposed standard (please provide reasons for your preferred option):**  
a) **Presenting all requirements pertaining to group audits in a separate Part; or**  
b) **Presenting the requirements pertaining to group audits within each relevant Part.**

**Response:**

The NZAuASB expressed mixed views as to whether group requirements should be presented in a separate Part or within each relevant Part of the Standard, this is corroborated with submission from a professional body. From our outreach events with audit practitioners', most participants preferred the presentation of group audit requirements as a separate part in the proposed standard, although most participants did not consider the placement of the group audit requirements in the proposed standard to be of significant importance. The argument for presenting the requirement within each relevant Part of the Standard is that it follows the current flow and design of the standard, and will be clearly indicated as a group audit requirements.



## Appendix 3.4A – Sole practitioner submission

### Submission from Diane Robinson CA on [Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities \(ISA for LCE\)](#)

My comments come from the perspective of a Sole Practitioner without any staff, specializing in the audit of Not for Profits with less than \$2m annual expense. Thus, they either use PBE-SFR-A (NFP) or PBE-SFR-C (NFP) or Special Purpose (e.g., Incorporated Societies that are not Registered charities). My feedback largely comes from listening to the issues raised in the feedback forum today (28Oct21).

Referring to IAASB ED on Audit of Less complex entities

2.5.1 is appreciated, viz not having to document items for an engagement team, when the team is only the engagement partner ditto 3.2

4.6 Where the previous auditors workpapers are not available or of a dubious standard comparative figures and opening balances will likely be qualified in the audit report. Doesn't happen a lot now, but I still do get some news audits that have not had a previous auditor using up to date audit standards.

4.8 I do think it is best the engagement letter say the LCE audit standard is being used because of..., in the interests of transparency

9.5 I particularly like the table re modified opinion options and Table C

#### Application of the proposed Standard

1/Being part of a group does not make an audit complex, e.g.

Charitable Trust A owns the property, separate Charitable Trust B does the work and rents the property owned by A. This is the only transaction to be eliminated on consolidation. This is not complex.

Another example might be a company that holds the patents or other key assets or is a name protection company and there is little if any revenue/expenses to be eliminated on consolidation

I don't think groups should be automatically excepted out of the standard but should only be precluded from the standard if the groups entities are genuinely complex. NB \$amounts, not always an indicator of complexity.

Tier1 or Tier 2 charities may likewise be less complex, e.g., endowment fund that simply earns income and gives most of it away

**Appendix 3.4A – Sole practitioner submission**

2/ It does seem self-evident that a less complex entity will not have an overseas associate or subsidiary entity or overseas branch.

3/ I like the term 'less complex' vs 'small'. It is a better term



5 November 2021

Mr Robert Buchanan  
Chair  
New Zealand Auditing and Assurance Standards Board  
Level 7, 50 Manners Street  
Wellington  
New Zealand

**Re: Submission on the Proposed IAASB International Standard on Auditing for Audits of Less Complex Entities**

The Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand (AFAANZ) is pleased to comment on the International Auditing and Assurance Standards Board's Proposed International Standard on Auditing 600 'Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)' as an input into the New Zealand Auditing and Assurance Standards Board's deliberations and submission on this proposed standard.

The attached submission includes an overview of our comments (section 1), our response to specific questions in the IAASB proposals (section 2) and comments to the NZ Auditing and Assurance Standards Board on issues raised on the website in section (3).

AFAANZ is the peak regional academic accounting and finance association, and counts among its membership the region's leading and emerging accounting and finance researchers. The Auditing and Assurance Standards Committee is an ad-hoc committee under the governance of AFAANZ's Auditing and Assurance Special Interest Group, formed to give a voice on standard setting deliberations to the academic research literature.

The views expressed in the comments that follow are those of the undersigned Committee members and do not necessarily reflect the official position of AFAANZ. While the views expressed represent a consensus view of the Committee, they do not necessarily reflect the individual views of every member.

We will also be providing our comments to the AUASB and IAASB as part of their respective due processes.

If you have any questions on our submission, please contact either of the Committee Co-Chairs (David Hay – [d.hay@auckland.ac.nz](mailto:d.hay@auckland.ac.nz) or Noel Harding – [n.harding@unsw.edu.au](mailto:n.harding@unsw.edu.au)).

Yours Sincerely,

A handwritten signature in black ink that reads "D. C. Hay". The signature is written in a cursive style with a large initial "D" and a small "C" followed by a period, and the name "Hay" written in a flowing script.

Professor of Auditing, University of Auckland

On behalf of:

Paul Coram (University of Adelaide), Yi (Dale) Fu (Deakin University), Mukesh Garg (Monash University), Noel Harding (UNSW Sydney), David Hay (University of Auckland Business School), Mohammad Jahanzeb Khan (Deakin University), Nora Muñoz-Izquierdo (CUNEF University), Ashna Prasad (Monash University), Nigar Sultana (Curtin University), Jamie Tong (University of Queensland)

**Comments of the AFAANZ Auditing and Assurance Standards Committee on Proposed International Standard on *Auditing for Audits of Financial Statements of Less Complex Entities***

Paul Coram (University of Adelaide), Yi (Dale) Fu (Deakin University), Mukesh Garg (Monash University), Noel Harding (UNSW Sydney), David Hay (University of Auckland Business School), Mohammad Jahanzeb Khan (Deakin University), Nora Muñoz-Izquierdo (CUNEF University), Ashna Prasad (Monash University), Nigar Sultana (Curtin University), Jamie Tong (University of Queensland)

Corresponding author: David Hay, [d.hay@auckland.ac.nz](mailto:d.hay@auckland.ac.nz)

The Auditing and Assurance Standards Committee is a subcommittee under the governance of the Accounting and Finance Association of Australia and New Zealand's Auditing and Assurance Special Interest Group. The views expressed represent a consensus view of the Committee, but do not necessarily reflect the individual views of every member, nor do they necessarily represent the official position of The Accounting and Finance Association of Australia and New Zealand.

# Comments of the AFAANZ Auditing and Assurance Standards Committee on Proposed International Standard on *Auditing for Audits of Financial Statements of Less Complex Entities*

## 1. Introduction - overview of comments.

The exposure draft of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE) is an innovative approach to a widely discussed issue in auditing, namely whether the International Standards on Auditing are appropriate for less complex entities, which might include smaller entities or certain other entities. Our submission concentrates on questions which we consider research can be helpful in answering, and is supported by references to research.

Our recommendations are:

- We agree with the self-contained nature of the standard, but suggest there should be greater clarity about the difference between less complex entities under this standard and small and medium entities covered by the stand-alone International Financial Reporting Standard for Small and Medium-sized Entities (Question 1 (a))
- We agree with the title of the standard (Question 1 (b))
- We agree with not including any quantitative threshold for application of the standard (Question 3)
- The specific prohibitions on the use of the ISA standard for listed entities and entities with certain functions should be removed in sections A.7 (b) and (c) (Question 4 (a)).
- We provide a list of characteristics of complex audits that have been used in research studies, supported by references (Question 4 (b)). We suggest further guidelines.
- We suggest that the ISAs should not be the only source for standards to be applied to LCEs (question 7)
- We recommend that consideration should be given (in conjunction with IESBA) to adapting the code of ethics for auditors conducting an LCE (question 7).
- We recommend that ISA 610 (using the work of the internal auditor) should not be excluded from the standard (question 9)
- We agree with the provision of a standard audit report providing a reasonable level of assurance to financial statement users of LCEs (question 10).
- We conclude that not including KAMs is unlikely to have a negative effect on users of LCE audit reports (question 10).
- We support the audit report including a reference to the use of the LCE standard (question 10)
- We recommend extending the standards related to agreed-upon procedures to cover LCEs (question 16)
- We urge the IAASB to encourage users to participate in the development process of the ED-ISA for LCE in order to satisfy their needs and solve any possible conceptual and practical challenges to implement this regulation (question 17).

- We generally support the standard excluding group audits, but with an exception allowing group audits in cases where there are no other component auditors (questions 22 and 24)

## **2. Responses to specific questions in the IAASB proposals.**

*2.1 Question 1 a Views are sought on: The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?*

- We agree with the self-contained nature of the standard, but suggest there should be greater clarity about the difference between less complex entities under this standard and small and medium entities covered by the stand-alone International Financial Reporting Standard for Small and Medium-sized Entities.

In response to question 1 (a), we agree with the stand-alone “self-contained” nature of ED-ISA for LCE. Research on financial reporting standards supports our view examining the stand-alone International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs, hereinafter). Perera and Chand (2015) critically review the development and implementation process of IFRS for SMEs and find technical concerns arising when full IFRS are applied in absence of specific guidance for SMEs.

With this in mind, we recommend that ED-ISA for LCE is fully separated and self-contained from full ISAs. Nevertheless, we note that if the “self-contained” nature is maintained, more clarity on the differences between entities considered “less complex” and “small and medium-sized” is needed for users, as entities that adopted IFRS for SMEs for financial reporting purposes could be the interested users of ED-ISA for LCE.

*2.2 Question 1 b Views are sought on the title of the proposed standard.*

- We agree with the title of the standard (Question 1 (b))

We agree on the title “*International Standard on Auditing for Audits of Financial Statements of Less Complex Entities*” of the proposed standard because it includes the nomenclature “Less Complex Entities” which is consistent with the scope of the proposed standard.

We note research highlighting that users are confounded when the title of the standard is not aligned with its scope. Perera and Chand (2015) find that the title of IFRS for SMEs is confusing to users because the qualitative nature is not aligned with the definition of SMEs, which is based on the non-listed status and does not mention any size-threshold.<sup>1</sup> They also point out that the title created controversy because this is seen as having a negative effect on their reputation by some entities which do not wish to be perceived as small or medium. We are also concerned

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<sup>1</sup> In the IFRS for SMEs, an entity is considered an SME if it does not have public accountability and publishes general purpose financial statements for external users.

that individual jurisdictions may include size-thresholds in ED-ISA for LCE, (as in the accounting regulation of SMEs), creating comparability concerns of the LCE definition.

*2.3 Question 3: Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular: Is the Authority as presented implementable? If not, why not?*

- We agree with not including any quantitative threshold for application of the standard (Question 3)

In response to question 3 (a), we agree on excluding any quantitative threshold on the scope of ED-ISA for LCE, such as firms' size, following prior evidence on IFRS for SMEs literature (Eierle and Haller 2009; Perera and Chand 2015).

*2.4 Question 4, Do you agree with the proposed limitations relating to the use of ED-ISA for LCE. (a) Specific prohibitions*

- The specific prohibitions on the use of the ISA standard for listed entities and entities with certain functions should be removed in sections A.7 (b) and (c) (Question 4 (a)).

We considered whether the prohibitions in ED-ISA for LCE were appropriate. We recommend that the specific prohibitions on the use of the ISA standard for listed entities and entities with certain functions should be removed in sections A.7 (b) and (c), because:

**(1) there is evidence that entities will voluntarily choose the appropriate level of assurance that suits the requirements of their financial report users**

A large body of research highlights that entities opt for high-quality accounting and auditing information to obtain access to credit and better financing conditions to SMEs (Allee and Yohn 2009; Van Caneghem and Van Campenhout 2012; Vander Bauwhede, De Meyere and Van Cauwenberge 2015; Palazuelos et al. 2020). Similar findings apply to voluntary choice of a review (Gong et al. 2021). For example, audited financial statements positively affect firms' access to financing (Brisozzo and Albanese, 2020). Minnis, M. (2011) finds that among privately held US firms, audited firms have a significantly lower cost of debt, lenders place more weight on audited financial information in setting the interest rate, and that accruals from audited financial statements are better predictors of future cash flows.

These findings provide evidence of a relevant economic benefit of financial reporting for SMEs, which is the potential to reduce information asymmetry between SMEs and their creditors through higher quality financial reporting, so that a requirement for a particular type of audit under ISAs should not be necessary.

**(2) the need for audited financial reports varies depending on other aspects of the jurisdiction such as shareholder or stakeholder orientation management practices and company characteristics**

Published research suggests that users of SMEs financial reports differ among jurisdictions (Gassen 2017). The need for audited financial reports varies depending on other aspects of the



jurisdiction such as shareholder or stakeholder orientation (Barroso et al. 2018), managers' practices (Niemi et al. 2012; Weik et al. 2018) and company's characteristics (Collis 2010; Dedman et al. 2014; Niemi et al. 2012; Weil et al. 2018).

Examining the impact of the stand-alone IFRS for SMEs using country-level interview data of 24 countries across the globe, Gassen (2017) finds that banks, tax authorities, and, to a lower degree, inside and outside shareholders, appear to be the main addressees of IFRS for SMEs, but they differ among jurisdictions. While every expert considers banks to be relevant, tax authorities are sometimes mentioned as the prime users and other times not considered at all (for example, in Australia).

Prior research also points out relevant differences in voluntary audits among jurisdictions. In a review of prior studies on this topic, Weik et al. (2018) summarize that companies opting for voluntary audit are less common in Germany (12% of their sample) than in other countries analysed in prior literature (between 26% and 80% in Australia, Canada, Denmark, Finland, and the UK). As a result, it is not appropriate to impose a particular requirement that certain entities should use ISAs across all jurisdictions when it will not be appropriate in some settings.

**(3) it is not always known when an audit is done who the financial report users will be or what information they will need.**

Handley et al. (2018) concluded that some users of SME financial statements would be satisfied with less complex reports that provide information regarding an entity's liquidity, profitability and solvency. Other users who favour reporting according to a comprehensive set of accounting standards are concerned about unspecified future needs for financial information, particularly in the event of financial distress. There is limited empirical evidence on the needs of SME financial report users (Devi and Samujh 2015; Gassen 2017). Devi and Samujh (2015) critically evaluate the development of the stand-alone standard IFRS for SMEs. Their main concern is that there was a lack of grounded studies and empirical knowledge on SME users' needs that impeded the development of the standard. Later on, as previously explained, Gassen (2017) finds, by interviewing leading accounting experts across the world, that banks, tax authorities and, to a lower degree, inside and outside shareholders, seem to be the main users of IFRS for SMEs, although differences appear among countries.

**(4) Some listed companies are considerably less complex than others.**

We recommend that section (b) be removed so that the LCE standard can be used for listed entities. Data analysis using the Australian setting shows that a very large proportion of listed entities have audits that appear to be conducted on a small scale and are not complex. Table 1 shows descriptive statistics of Australian listed companies sorted by size deciles. The lowest decile, representing the 10% of companies with the lowest fees, has mean audit fees of \$14,000. These audits are very small, but those for the next few higher deciles are not much larger – it is not until decile 7 that mean audit fees exceed \$100,000. We do not have a detailed table of New Zealand audit fees, but based on some information from earlier years it appears that the bottom decile of NZ listed companies are not as small as those in Australia and have mean audit fees of \$25,000. The top decile mean audit fee is \$1,355,000. The audit fee for the lower half of New Zealand companies by audit fee is approximately \$80,000. These data show that there are many listed companies that appear to be less complex because they have low audit fees.

**(5) We recommend that paragraph (a) remain.**

It is reasonable to acknowledge the existence of various characteristics among different jurisdictions. Minnis, M., & Shroff, N. (2017) document that private firms face differing financial disclosure and auditing regulations around the world. For example, private firms are generally neither required to disclose their financial results nor have their financial statements audited in US and Canada. By contrast, many firms with limited liability in most other countries are required to file at least some financial information publicly and are also required to have their financial statements audited.

*2.5 Question 4, Do you agree with the proposed limitations relating to the use of ED-ISA for LCE. (b) Qualitative characteristics*

- We provide a list of characteristics of complex audits that have been used in research studies, supported by references. We suggest that entities in the lower half of any complexity measure can be regarded as less complex according to that measure.

In this section we provide a list of research about auditing that considers what factors make an audit more complex, usually in order to control for differences among auditees. There is a well-established list of characteristics that have been used to control for complex audits. We also provide data on Australian companies grouped by size. We are unable to get similar data for unlisted companies. The data analysis shows that first, there are a large number of listed companies that appear to be less complex. Second, the distribution of the data suggests that a useful guideline for “less complex” is that it refers entities in the lower half of a particular complexity measure.

The most commonly used measures for firm complexity are as follows:

### **(1) Number of Subsidiaries**

The literature which uses this proxy for firm complexity suggests that a greater number of subsidiaries is an indication of diverse operations requiring broader skills in operations, accounting and auditing (Hay et al. 2006; Abbott, Parker, Peters, & Raghunandan, 2003; Carcello, Hermanson, Neal, & Riley, 2002; Davis, Ricchiute, & Trompeter, 1993; Francis, 1984; Gul, Chen, & Tsui, 2003; Simon & Francis, 1988; Simunic, 1980; Bugeja et al. 2016).

### **(2) Number of Geographic or Business Segments or SIC Codes**

The greater the number of business segments/SIC codes that a firm operates within, the more complex the firm’s operations are likely to be. This requires the firm to demonstrate task diversity expertise and knowledge across different operating activities and regulatory requirements (Davis, et al., 1993; Francis, 1984; Simunic, 1980). More recent studies use a similar approach (Abernathy, Guo, Kubick, & Masli, 2019; Ali, Boubaker, & Magnan, 2020; Bailey, Collins, & Abbott, 2018; Barroso, Ali, & Lesage, 2018; Hansen, Lisic, Seidel, & Wilkins, 2021; Pittman & Zhao, 2021; Sultana, Cahan, & Rahman, 2020).

Firms that report a high number of segments can be viewed as the most complex and complicated both from an operating and from a reporting perspective (Cohen and Lou 2012). Other studies that define complexity as number of geographical or business segments include Chakrabarty, B., Seetharaman, A., Swanson, Z., & Wang, X. (2018); André, P., Filip, A., & Moldovan, R. (2019); Cassell, C. A., Myers, L. A., Schmardebeck, R., & Zhou, J. (2018); Pinto, I., & Morais, A. I. (2019); Zhong, R. I. (2018); Hsu, H. H., Lin, C. H., & Tsao, S. M. (2018). Jaggi, B., & Tang, L. (2017) uses product lines as a proxy for firm complexity.

The greater the geographic locations across which a firm operates, the greater the likely that the operations of the firm are complexed as a result of different jurisdictional and operating conditions the firm has to adjust to and account for (Abernathy, et al., 2019; Guo et al. Wilkins, 2021; Sultana, et al., 2020). Yiu et al. (2020) also measures operational complexity as geographical diversity. What they argue is that it should be more complex and challenging for firms to deal with geographically dispersed customers across different countries.

The existence of foreign segments combines the complexity arising from domestic business segments and their diversity with operations in a foreign country thereby magnifying the difficulties in accounting and auditing transactions from such foreign segments (Bailey, et al., 2018).

### **(3) Number/Percentage of Foreign Subsidiaries**

Foreign subsidiaries essentially proxy foreign operations which, in turn, suggest a firm working across more than one jurisdiction. This requires the firm to be able to manage complexities arising from differing day-to-day operational activities and compliance with different regulatory requirements for example, accounting standards (Abbott, et al., 2003; Gul, et al., 2003; O'Sullivan, 2000; Simon & Francis, 1988). Bugeja et al. (2016) argue that multinational diversification signals greater firm complexity. They therefore use the natural logarithm of the number of foreign subsidiaries to measure geographical diversification. Other studies that use the number of foreign operations to measure business complexity include Cassell et al. (2018).

### **(4) Percentage of Foreign Assets**

Firms with foreign assets experience similar complexities to those with foreign subsidiaries; namely the need to operate outside of their home jurisdiction resulting in the need to be familiar with different operational models and compliance regimes (Carcello, et al., 2002; Simunic, 1980).

### **(5) Foreign income/sales**

The occurrence of foreign income/sales suggests that a firm operates across one national boundary and operations in another country and currency. This introduces a level of complexity which will require greater care in operational practices and accounting for such transactions by the firm (Abernathy, et al., 2019; Ali, et al., 2020; Azizan & Shailer, 2021; Barroso, et al., 2018; Hansen, et al., 2021; Kallunki, Kallunki, Niemi, & Nilsson, 2019; Pittman & Zhao, 2021).

### **(6) National and Multinational Operations**

Firms with national and multinational operations have operations that are different thus introducing complexity into their procedures as a result of changed operating conditions (Knechel & Payne, 2001).

### **(7) Auditor-related factors**

The presence of auditors at multiple locations and the number of auditor reports issued to a client also suggests variety of firm tasks evidencing more complex operations thus requiring greater auditor attention (Palmrose, 1986).

### **(8) Firm age**

Older client firms are potentially larger and have more complex operations that require more complicated disclosures (Chakrabarty, B., Seetharaman, A., Swanson, Z., & Wang, X. (2018)). However, Lisowsky, P., & Minnis, M. (2020) investigate the financial reporting choices of medium-to-large private U.S. firms, a setting that has no financial reporting mandates, and they find that firm size, ownership dispersion, external debt, and trade credit are positively associated with the choice to produce audited GAAP financial statements, while asset tangibility, firm age, and internal debt are generally negatively related to this choice.

Research in corporate governance also uses firm age as a measure of complexity. It is argued that older firms are potentially larger and have more complex operations that require more complicated disclosures (Chakrabarty, B., Seetharaman, A., Swanson, Z., & Wang, X. (2018)).

### **(9) Merger or acquisition activities**

Firms with merger and acquisition activities have more complex operations and annual reports (Chakrabarty, B., Seetharaman, A., Swanson, Z., & Wang, X. (2018)). Research in corporate governance also considers merger or acquisition activities because firms with merger and acquisition activities (MA) have more complex operations and annual reports (Chakrabarty, B., Seetharaman, A., Swanson, Z., & Wang, X. (2018)).

### **(10) Ownership structure**

Hsu, H. H., Lin, C. H., & Tsao, S. M. (2018) argues that the increased complexity of ownership configurations as a result of cross-shareholding and pyramidal share structures typically makes it difficult for minority shareholders to detect and understand the relationship between ownership and control. As such, firms are probably not LCEs if they have complicated ownership structure such as cross-shareholding and pyramidal share structures.

Similarly, Lisowsky, P., & Minnis, M. (2020) investigate the financial reporting choices of medium-to-large private U.S. firms, a setting that has no financial reporting mandates, and they find that firm size, ownership dispersion, external debt, and trade credit are positively associated with the choice to produce audited GAAP financial statements. (Jamie comment: This paper is on medium-to-large firms. However, the logic/idea can be applied to small firms. Some measures such as ownership dispersion, internal debt, trade credit etc, though not used by previous studies, may have implications for “complexity” given that they are found to be related to the demand for audited financial reports.)

### **(11) Technology-related complexity**

Min, B. S. (2018) uses two flow variables to capture technology-related complexity: R&D expenses scaled by sales and expenditure on machinery scaled by number of employees. Though not using specific measures, Darrat, A. F., Gray, S., Park, J. C., & Wu, Y. (2016) suggest that technical sophistication has implication for complexity.

### **(12) Labour intensity (number of employees)**

Operational complexity is measured as labour intensity and geographical diversity because it should be more complex and challenging for firms to manage a large number of employees in operations and to deal with geographically dispersed customers across different countries. (Yiu, L. D., Lam, H. K., Yeung, A. C., & Cheng, T. C. E. (2020))

## **Analysis of data to determine criteria for less complex entities**

We examined the audit fees of listed Australian companies to illustrate the effect of some of these factors on complexity. Audit fees depend on the inputs required to achieve effective audit outcomes and likely depend on the inputs and their associated costs (Knechel and Sharma 2012). The two important audit costs that determine audit effort and fees are hourly rates and hours spent on the audit engagement. Audit effort will, therefore, depend on the complexity of the audit client.

Since we do not have access to a complete set of variables for the audit fees model for unlisted reporting entities, we employ data for ASX-listed companies from 1995 to 2021 to provide evidence on client firm characteristics that affect audit effort and audit fees. First, we divide 25,140 firm-year observations into deciles based on audit fees. We find that firms paying high audit fees have significantly higher total assets, geographic and business segments, foreign operations and inventory and receivables. The results are consistent for both the top and bottom decile. Low audit fees paying clients (mean=\$14,000; median=\$15,000) have significantly lower total assets (mean=\$28.4m; median=\$4.18m), number of geographic segments (mean=1.305; median=1) and business segments (mean=1.001; median=1), and foreign operations (mean=0.066; median=0). We also conduct a two-sample *t*-test to test whether the means of client firm characteristics for the low and high audit fees groups are equal or not. Sample of high audit fees firms has significantly higher total assets, geographic and business segments, foreign operations and inventory and receivables. The results are consistent for both the top and bottom decile. Low audit fees firms have significantly lower total assets, the number of geographic and business segments, foreign operations and inventory and receivables. Our results are supported by regression analysis of the determinants of audit fees (details available on request).

**Table 1: Descriptive statistics for Australian listed companies by audit fee decile****Panel A: Means of descriptive statistics for Australian listed companies by audit fee decile**

Decile	No. of client -year observations	Audit fees (millions)	Total assets (millions)	Receivables - Total	Inventories - Total	Intangible Assets - Total	PPE - Total (Net)	No. Geographical segments	No. Business segments	Foreign operations	Extra ordinary items	Operating income
1	2514	0.014	28.408	2.102	2.503	9.098	5.973	1.305	1.001	0.066	0.012	0.397
2	2514	0.025	13.248	0.621	0.388	1.211	6.644	2.100	1.012	0.129	-0.061	-1.585
3	2514	0.032	18.511	0.793	0.332	1.784	10.010	2.204	1.026	0.179	0.006	-1.950
4	2514	0.040	20.819	1.119	0.599	1.514	8.459	2.469	1.025	0.235	-0.010	-3.030
5	2514	0.053	25.355	1.633	0.882	2.220	11.851	2.427	1.018	0.277	0.007	-2.514
6	2514	0.072	51.513	3.787	2.018	4.132	18.327	2.878	1.023	0.322	-0.325	-1.889
7	2514	0.104	112.574	10.236	5.878	16.334	39.017	3.274	1.025	0.385	0.232	1.230
8	2514	0.165	189.918	18.931	11.690	31.820	76.856	3.754	1.040	0.441	1.782	10.774
9	2514	0.310	433.055	42.605	34.844	77.504	165.606	5.593	1.115	0.479	0.014	23.433
10	2514	9.251	4992.820	424.426	290.918	978.600	2334.940	7.100	1.261	0.492	5.121	455.552
Full sample	25140	1.006	578.379	49.749	34.399	111.285	263.051	3.310	1.055	0.300	0.669	47.066

**Panel B: Median of descriptive statistics for Australian listed companies by audit fee decile**

Decile	No. of client -year observations	Audit fees	Total assets	Receivables - Total	Inventories - Total	Intangible Assets - Total	PPE - Total (Net)	No. Geographical segments	No. Business segments	Foreign operations	Extra ordinary items	Operating income
1	2514	0.015	4.18	0.05	0.00	0.00	0.61	1.00	1.00	0.00	0.00	-0.66
2	2514	0.025	5.33	0.07	0.00	0.00	1.51	1.00	1.00	0.00	0.00	-1.06
3	2514	0.032	7.00	0.09	0.00	0.00	2.45	1.00	1.00	0.00	0.00	-1.45
4	2514	0.040	8.95	0.14	0.00	0.00	2.17	1.00	1.00	0.00	0.00	-1.75
5	2514	0.052	12.32	0.33	0.00	0.00	2.64	1.00	1.00	0.00	0.00	-1.89
6	2514	0.072	19.05	0.80	0.00	0.00	3.20	1.00	1.00	0.00	0.00	-2.04
7	2514	0.103	37.18	2.53	0.38	0.51	5.45	1.00	1.00	0.00	0.00	-1.10
8	2514	0.162	72.52	7.50	2.18	3.19	12.94	1.00	1.00	0.00	0.00	0.80
9	2514	0.295	221.73	23.15	8.34	13.88	36.40	1.00	1.00	0.00	0.00	11.16
10	2514	0.989	1679.62	168.40	61.75	252.20	372.42	1.00	1.00	0.00	0.00	100.06
Full sample	25140	0.061	18.52	0.66	0.00	0.00	4.59	1.00	1.00	0.00	0.00	-0.94

Notes: All figures for financial data are in the Australian Dollar in millions. Geographical and business segments are counts, and foreign operations is a categorical variable, with 1 indicating the existence of foreign operation, and 0 otherwise.

*2.6 Question 7 Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C. Please structure your responses as follows:*

*The approach to how ISA requirements have been incorporated into the proposed standard (see paragraphs 74-77).*

- We suggest that the ISAs should not be the only source for standards to be applied to LCEs.
- We recommend that consideration should be given (in conjunction with IESBA) to adapting the code of ethics for auditors conducting an LCE.

As noted in paragraphs 74 to 77, the approach to incorporating ISA requirements in the proposed standard was to use requirements in the ISAs as a base. We are concerned that this approach detrimentally constrains the effectiveness of the proposed standard in meeting the purposes for which it is being drafted. The approach is problematic in that the content of the proposed standard is limited to that which is already included in the suite of ISAs (that have been written and subsequently revised with a more complex entity in mind).

Research highlights that the agency relationships for which auditing reduces information asymmetry are different in private companies compared to public companies (Chen, Hope, Li and Wang 2011; Langli and Svanstrom 2014). In this regard, agency conflicts in private firms are more likely to be between majority and minority shareholders and between ownership interests and debtholders than between ownership and management (as is the case in public companies) (e.g., Carey, Simnett and Tanewski, 2000; Niskanen, Karjalainen and Niskanen, 2010; Schierstedt and Corten, 2021). Compared to publicly listed firms, private firms have fewer incentives to report high quality earnings (Ball and Shivakumar, 2005) and the cost of switching auditors for small business is relatively low (Abbott, Gunny and Zheng, 2013). Relatedly, the users of, and use for, audited financial information are different in private companies (e.g., Dedman, Kausar and Lennox, 2014).

In addition, less complex entities are more likely to be audited by a small practice (Ghosh and Lustgarten, 2006). Smaller professional practices conduct audits in smaller teams (Langli and Svanstrom, 2014), with different relationships among team members (Harding and Kim, 2021), and rely on different knowledge sharing and support networks through which to support firm and engagement level quality (Sundgren and Svanstrom, 2013). In smaller practices, threats to independence manifest themselves in different ways (Langli and Svanstrom, 2014), and threats from economic bonding may not be as significant (Hope and Langli, 2010). Importantly, reputation and litigation costs that drive positive behaviors in larger audit practices are not as salient in small to medium practices (Johnstone and Bedard, 2003; Bell Causholli and Knechel, 2015; Hardies, Vandenhoute and Breesch, 2018).

*2.7 Question 7 (continued):*

*(c) The principles in relation to professional skepticism and professional judgment, relevant ethical requirements and quality management (see paragraphs 81-84).*

- We recommend that the essential explanatory material be strengthened to remind auditors that strong and long-standing relationships, and beliefs as to management

honesty and integrity that these relationships foster, does not relieve the auditor of the need to remain skeptical.

We provide comment in response to this question under the headings of ‘Professional Skepticism’, ‘Relevant Ethical Requirements’, and ‘Quality Management’.

#### Professional Skepticism

The stronger relationship between the auditor and client management / personnel in audits of less complex entities gives rise to unique threats to the exercise of an appropriate level of skepticism that are not as significant in audits of more complex entities. The past experience that the essential explanatory material associated with paragraph 1.4.6 refers to is likely to be more salient and a greater threat than is the case when auditing more complex entities (where there are fewer opportunities to develop strong social bonds). We recommend that the essential explanatory material be strengthened to remind auditors that strong and long-standing relationships, and beliefs as to management honesty and integrity that these relationships foster, does not relieve the auditor of the need to remain skeptical. We recommend that the expression of the underlying principle of professional skepticism be strengthened.

We note literature highlighting the increased significance of social bonding in audits of private companies (and by inference, audits of less complex entities) (Langli and Svanstrom 2014). This has implications for the exercise of professional skepticism in that research has shown that objectivity can be compromised when the auditor identifies with their client (Bamber and Iyer, 2007; Stefaniak, Houston and Cornell, 2012) and when a social bond exists between the auditor and the client by way of audit firm alumni associations (Favere-Marchesi and Emby 2018). Similarly, Kadous, Leiby and Peecher (2013) find that auditors employ a trust heuristic (or rule of thumb) when evaluating advice from colleagues with whom they have a stronger social bond and do not subject the advice to critical evaluation.

#### Relevant Ethical Requirements

We recommend that the IAASB liaise with IESBA as the project progresses with a view to considering the appropriateness of Section 600 of the Code and the current restrictions on the provision of non-assurance services to less complex (owner manager) clients.

We recognize the importance of complying with a high ethical standard when performing audit (and other assurance and related services). This is the case, irrespective of the nature of the practitioner and client. However, given the objective of this project, and with reference to extant research literature, we recommend that the IAASB give greater attention to the unique independence issues that are present in audits of less complex entities and liaise with the IESBA with a view to being satisfied that current ethical requirements around the provision of non-assurance services (i.e., Section 600 of the Code) are fit for purpose and complement the application of the proposed standard. Guo, Kinory and Zhou (2021) review PCAOB disciplinary orders on small US domestic audit firms and find that concerns around auditor independence frequently arise. Small and medium audit practices tend to have closer connections to local businesses (Louis, 2005), and social bonding with owners/managers is a greater threat to independence in audits of less complex entities than is the case for larger more complex entities (Svanstrom, 2013; Langli and Svanstrom, 2014).



We also note ongoing discussion around the provision of non-assurance services by small and medium practices to their less complex (owner-manager) clients. With regard to the impact on audit quality of the provision of non-assurance services to private companies, the research is mixed. Svanstrom (2013) reports results consistent with the understanding that there are knowledge spill overs associated with the provision of non-assurance services such that audit quality is improved. Bell, Causholli and Knechel (2015), on the other hand, find that audit quality decreases with the provision of non-assurance services to privately held clients. We further note in our response to Question 9 that the performance of risk assessment in an audit of less complex entities is a challenge, and the increased knowledge (and the positive spill over effects often associated with the provision of non-assurance services) may go some way to alleviating this threat to audit quality.

### Quality Management

We recommend that the IAASB reinforces the principles of firm and engagement level quality control in an audit of a less complex entity by supplementing the material currently presented in the proposed standard to reflect important differences between small to medium practices and those larger practices for which much of the material in ISQM 1, ISQM 2 and ISA 220 is written.

With reference to quality management, we concur with the principle that those practitioners completing an engagement with reference to the proposed standard are subject to the IAASB's Quality Management standards (or national equivalents that are at least as demanding). At the same time, however, we highlight differences in the structure and organization of the small and medium practices that perform these engagements and note the need for additional essential explanatory material in Section 1 as it relates to firm quality management and Section 3 as it relates to engagement quality management.

Research highlights that auditors in small and medium practices do not have the same opportunities as auditors in larger practices to seek advice from colleagues (Langli and Svanstrom, 2014; Sundgren and Svanstrom, 2013). Small to medium practices, instead, rely on other mechanisms to compensate for this knowledge deficit (such as formal networks and insurers) (Bills, Hayne and Stein, 2018; Frank, Maksymov, Peecher and Reffett, 2021). Research further highlights that differences in the interpersonal relationships and interactions between engagement team members across large and small practices means that partners in small practices need to be especially careful in directing the work of their subordinates, or otherwise risk inappropriately influencing the audit judgments of those subordinates (Harding and Kim, 2021).

*2.8 Question 9: Please provide your views on the content of each of Parts 1 through 8 of ED-ISA for LCE, including the completeness of each part. In responding to this question, please distinguish your comments by using a subheading for each of the parts of the proposed standard.*

- We recommend that ISA 610 (using the work of the internal auditor) should not be excluded from the standard .

In our response to Question 7 above, we note our concern around the approach to developing ED-ISA for LCE, in that it is limited to circumstances already included in the extant suite of ISAs and, as a consequence, excludes the consideration of circumstances that are unique to an audit of a less complex entity. We are of the view that broadening the base from which the contents of the proposed standard is sourced (to important but unique circumstances prevailing in audits of less complex entities but not noted in the current suite of ISAs), will improve the effectiveness of the proposed standard.

#### Excluding consideration of the work of internal auditors

ED-ISA for LCE explicitly excludes requirements relating to ISA610 ‘Using the Work of Internal Auditors’. This is justified on the basis that internal auditors are most likely to be engaged in entities with higher complexity and, therefore, the requirements relating to the use of the work of the internal auditor are not relevant to audits of less complex entities.

We are concerned that this may lead to the unintended consequence of scoping entities out of the proposed standard when they engage an internal auditor (in-house or outsourced), notwithstanding that they may meet all other requirements. In circumstances where the client engages an internal auditor, the external auditor would necessarily need to ‘top-up’ their use of the standard for LCEs with reference to ISA 610. This is not permitted and would scope the engagement out of the standard, forcing the practitioner into a new engagement under the full suite of ISAs. We do not believe that this is consistent with the objectives of the proposed standard, nor in the public interest. Moreover, research suggests that the use of internal audit may be more common in less complex entities than is currently understood to be the case.

Carey, Simnett and Tanewski (2000) report that among family businesses, internal audit was more common than external audit, and that unlike the situation in listed public companies, internal auditing is seen in family businesses as a substitute rather than a complement to external audit. Indeed, when requesting an audit in a voluntary environment, the needs of less complex entities are such that internal audit services are often seen as being more appropriate. This is consistent with the understanding that significant users of the audited financial statements in private companies are the entity’s owner/managers who are seeking reliable financial information on which to make decisions (Collis, Jarvis and Skerratt, 2004).

Given the potential unintended consequences of excluding coverage of internal auditors in the proposed standard, the apparent greater use of internal audit (or similar) service in less complex entities than that recognised when justifying the exclusion of this material from the proposed standard, and the nature of internal audit relative to external audit in less complex entities, we recommend that the IAASB reconsider the exclusion of ISA 610 material from the proposed standard. We also refer the IAASB to our commentary on the appropriateness of Section 600 of the IESBA Code which limits the provision of non-assurance services to audit clients, including internal audit work

#### Part 1 – Fundamental Concepts, General Principles and Overarching Requirements

On the basis of the extant academic research, we are of the view that the coverage of material on relevant ethical requirements and firm level quality management (Section 1.2), as

well as professional skepticism (Section 1.4.5 – 1.4.6), needs to be elaborated upon in order to reflect unique but important characteristics of less complex entity audits.

While we acknowledge that responsibility for ethical standards lies with IESBA, we are concerned that extant ethical requirements, especially as they relate to the provision of non-assurance services (i.e., Section 600 of the Code), are such that they may potentially impede the realization of the public interest benefits of the proposed standard. We encourage the IAASB to liaise with IESBA with a view to considering whether, as is the case with audits of public interest entities, practitioners performing audits of less complex entities should be subject to different requirements when ensuring independence.

Consistent with research focussed on publicly listed entities (see Beardsley, Imdieke and Omer 2021 for a recent summary) the limited research addressing private companies reports mixed results as to the effect on audit quality of auditors also providing non-assurance services to their clients. Svanstrom (2013) reports that the provision of non-assurance services is positively associated with audit quality while Bell, Causholli and Knechel (2015) report that audit quality decreases with the provision of non-assurance services to privately held clients. We discuss below concerns we have with regard to risk assessment in audits of less complex entities and the provision of non-assurance services may be associated with knowledge spill overs that improve the auditor's understanding of the client and its environment. We also note research reporting that the demand for audit in a voluntary environment is positively associated with the provision of non-assurance services (Dedman, Kausar and Lennox 2014). We recommend that the IAASB liaise with IESBA with a view to being confident that Section 600 of the Code as it relates to the provision of non-assurance services to less complex clients remains fit for purpose and facilitates rather than inhibits the achievement of a high quality audit under the proposed standard.

Independent of the appropriateness of Section 600 of the IESBA Code to less complex clients, we are of the view that, given the fundamental importance of complying with ethical requirements, and unique issues impacting audits of less complex entities, reference to the ethical requirements in Section 1.2.1 warrants the addition of essential explanatory material (at present, this material is limited to reference to firm level quality management).

Less complex entities are more likely to be audited by smaller practices (Ghosh and Lustgarten 2006) and threats to independence manifest themselves in different ways when small to medium practices audit less complex entities. While social bonding and familiarity threats may be more of a concern in audits of less complex entities (e.g., Langli and Svanstrom, 2013), threats from economic bonding may be less of a concern (Hope and Langli, 2010). In addition, research highlights that the voluntary demand for audit in private companies is associated with the demand for non-assurance services (Dedman, Kausar and Lennox, 2014), putting additional pressure on practitioners to remain compliant with ethical standards. We recommend that the essential explanatory material associated with Section 1.2.1 be elaborated upon to reinforce auditors' responsibilities in this regard.

We also believe that the proposed standard can be enhanced to reinforce opportunities to improve firm level quality management in small to medium practices. Practitioners working

in small to medium practices do not have the same opportunities as auditors in large practices to seek advice from colleagues and to discuss difficult judgments. They have less access to firm training and policy manuals and cannot as easily access quality reviews (with many practices operating as sole practitioners or with a small number of partners) (Langli and Svanstrom 2014). This can impede the effective application of the proposed standard for less complex entities and even cloud judgments as to whether the proposed standard remains applicable in circumstances of increased complexity.

Challenges in managing firm level quality in a small practice are significant. In addressing these challenges, Frank, Maksymov, Peecher and Reffett (2021) report that smaller practices can benefit from the risk management knowledge of their insurers, and Bills, Hayne and Stein (2018) find that small firm membership of accounting associations and networks (AANs) can help build competencies and improve audit quality (as well as enhance market legitimacy).

With reference to this research, we recommend that the IAASB elaborate on the essential explanatory material in paragraph 1.2.1 to increase the salience of the unique challenges in small to medium practices and to reinforce the need to manage these unique threats to quality management.

Research also highlights opportunities for the proposed standard to note unique circumstances impacting the exercise of professional skepticism in an audit of a less complex entity and, in doing so, make it more likely that auditors will exercise a level of professional skepticism appropriate to the circumstances. Research notes that social bonding is a greater threat in audits of less complex entities as auditors build strong, often long term, relationships with owner-managers (Langli and Svanstrom, 2013). Research highlights that objectivity can be compromised in circumstances where the auditor identifies with the client (Bamber and Iyer, 2007; Stefaniak, Houston and Cornell, 2012) and Kadous, Leiby and Peecher (2013) suggest that auditors may be overly trusting when there is a strong social bond. We recommend that the essential explanatory material associated with paragraph 1.4.6, and in particular the material on past experience with the entity's management, be elaborated upon such that the auditor using the proposed standard is aware of the threats to the appropriate exercise of professional skepticism that they must address.

### Part 3 Engagement Quality Management

The material on engagement quality management, quite appropriately, emphasizes the direction, supervision and review of members of the engagement team. Research, however, highlights that there are differences in the relationships between members of the engagement team across large and small practices (Langli and Svanstrom, 2014; Harding and Kim 2021). Given that audits of less complex entities will often be undertaken by small to medium practices (Ghosh and Lustgarten 2006), we are of the view that the material in Part 3 could be usefully expanded to increase the salience and implications of these different relationships. Research highlights that the interpersonal relationships between members of the engagement team in small practices are such that partners may inadvertently and inappropriately influence the judgments of their subordinates when directing and supervising their work (Harding and Kim 2021). In particular, Harding and Kim (2021) find that auditor judgments are more

aligned with their superior's preference in smaller practices. We recommend that the IAASB consider elaborating on the essential explanatory material accompanying paragraph 3.2.4 such that the practitioner is cognisant of the need to avoid inappropriately influencing a subordinate's judgments through their direction, supervision and review.

#### Part 6 – Risk identification and assessment

On the basis of research highlighting that small and medium sized practices may not effectively apply risk assessment procedures as required in ISA315, we are concerned that the material included on risk identification and assessment is inadequate for the purposes of conducting this critical component of the audit process.

Van Buuren, Koch, van Nieuw Amerongen and Wright (2014) find that auditors in small and medium sized audit practices often do not apply business risk perspectives (as required in ISA315), choosing instead to follow a more historic systems or substantive approach. Subsequent work by the same authors (van Buuren, Koch, van Nieuw Amerongen and Wright 2018) finds that many auditors in small and medium practices have not embraced business risk auditing, believing it to be too complex and that previous approaches remain effective.

We recommend, therefore, that the IAASB reinforce the importance of contemporary risk assessment, based on business risk, in achieving a reasonable level of assurance by expanding on the essential explanatory material associated with Section 6.1.1, and reminding auditors of less complex entities that the contemporary approach to risk assessment is required, even in less complex entities. We also note our comments above with regard to restrictions on the provision of non-assurance services and the potential impediments that this may pose to effectively and fully understanding the client and its environment and, therefore, the effective conduct of risk assessment.

*2.9 Question 10: For Part 9, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:*

- (a) The presentation, content and completeness of Part 9.*
- (b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?*
- (c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.*

- We agree with the provision of a standard audit report providing a reasonable level of assurance to financial statement users of LCEs (question 10).
- We conclude that not including KAMs is unlikely to have a negative effect on users of LCE audit reports (question 10).
- We support the audit report including a reference to the use of the LCE standard (question 10)

Our assessment of the proposed changes to auditor reporting in the ISA for LCE is that auditors will be required to produce an audit report that is similar to an audit report as required by ISA 700. However, there are two main differences in the ISA for LCE audit requirements:

- No KAMs are required
- The audit report will state that it was conducted under the ISA-LCE standard

We therefore present the following research to address the reporting requirements in the Proposed ISA for LCE.

- The value of a standard audit report
- What do users perceive from the standard audit report?
- How successful have the recent changes been to expand the audit report through KAMs?
- How do users perceive different levels of assurance?

### **The value of a standard audit report**

A significant amount of evidence shows that the auditor's report is an important signal to users of financial statements. Archival research has also shown that users evaluate the quality of auditing by using surrogates such as auditor size, brand, or reputation. An overall evaluation of this research concludes that the quality of auditing is high (Francis 2004). In relation to whether users determine the quality of the auditor's report through actually reading the auditor's report – it does not seem this is commonly done. Most people (including sophisticated financial statement users) have only a limited knowledge of what an auditor does and do not appear to focus much attention on the actual contents of the auditor's report.

The audit report presented in the LCE standard provides a fairly 'boilerplate' approach to reporting. Research has shown that this type of report is not well understood by users; however, from our review of the literature, that does not necessarily mean that it is not potentially the right approach for LCEs.

### **What do users perceive from the auditor's report?**

Research on the actual evaluation of unmodified auditor's reports has been mainly through behavioural research methods. Experimental research has tried to evaluate the success of some of the changes to the auditor's report to improve the communicative value and potentially reduce the expectations gap. Initial research emerged from the changes that came through to auditor's reports with SAS 58 in 1988 in the US. Studies examined potential effects on both sophisticated and unsophisticated users.

In evaluating sophisticated users, Kelly and Mohrweis (1989) examined bankers and investors perceptions of the old and 'new' auditor's reports and found that understandability was increased about the purposes of the audit. However, bankers actually perceived auditors to have less responsibility due to the expanded disclosures. Miller et al. (1993) performed an experiment with bank loan officers and found that these users better identified the new disclosures on auditors and managers roles. However, users' misperceptions regarding fraud and the scope of the audit remained unchanged.

In evaluating unsophisticated users, Hatherly et al. (1991) examined whether the new auditor's report reduced the expectations gap. In an experiment with MBA students, they found the expanded auditor's report had an effect on perceptions in most of the areas that it directly addressed. However, they also found the expanded auditor's report increased the perceptions that: *the auditor is satisfied with the financial statements, the company is free of fraud, and the audit adds credibility to the financial statements*. The authors describe this finding as a 'halo effect' since these issues were not addressed in the expanded auditor's report.<sup>2</sup> Monroe and Woodliff (1994) compared the old to the new auditor's report across a number of different user groups, including auditors. They found that the expectations gap decreased in some areas

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<sup>2</sup> In psychology, the 'halo effect' relates to a judgement of a particular person being overly influenced by the impression of that person. In Hatherly et al. (1991) they describe the 'halo effect' where "the expanded wording [of the auditor's report] seems to generate a feeling of well-being which spills over to provide significant changes for certain other dimensions not directly addressed by the expanded wording of the report." (Hatherly et al. 1991: 315)

addressed by the wording changes, such as auditors and managers roles. However, consistent with the idea of a ‘halo effect’, the gap actually increased with the new auditor’s report in areas that are not the auditors’ responsibility, such as whether the auditor should prevent fraud and evaluate the future prospects of the company. The research evidence shows that these changes to the auditor’s report had mixed effects on users’ perceptions.

There was not much further research on the audit report until the more recent changes to the audit reporting model were proposed and in revising ISA 700 (IAASB 2005). Chong and Plugraht (2008) experimentally evaluated whether the changes reduced the expectations gap or not by examining the perceptions of shareholders and auditors. Consistent with previous research, the changes did not reduce the expectations gap, and in actual fact, there were more perception differences with the longer form report. A focus group study by Gray et al. (2011) included a variety of user groups. They found: (1) the intended communications from an unqualified auditor’s report<sup>3</sup> is not particularly clear to preparers, users and auditors; (2) users have difficulty understanding key concepts in the auditor’s report; and (3) users do not read the auditor’s report, instead just look at it to ascertain whether it is unqualified or not. A verbal protocol study of 16 financial analysts evaluating audit reports by Coram et al. (2011) found that the auditor’s report per se is deemed essential by this important group of users. Collectively, these studies denote the symbolic value of the auditor’s report and indicate that little attention is placed on the actual content of these reports.

Mock et al. (2013) performed a synthesis of research on the audit reporting model. In relation to information about the audit report content, they conclude that the average user is not interested in carefully evaluating the current audit report because it is such a standard product. They also find that expanded disclosure about the audit does little to improve this communicative value. However, consistent with an earlier review by Church et al. (2008), they conclude that audit reports have “symbolic value”, which may be partly due to the boilerplate language of the report. Changes to the auditor’s report through further expansion of the wording were again made internationally with the issuance of ISA 700 (IAASB 2005).

In summary, research on the early versions of the auditor’s report has found issues with how well different users understand what the audit report communicates. Moreover, some of the changes to the wording of the audit reports did not make much difference on this.

### **Options to expand the audit report through Key Audit Matters (KAMs)**

The other topic to consider is whether to provide an expanded audit report which is not part of the LCE ED but has been allowed through the reporting of KAMs. This option in ISA 701 was made available for listed entities for periods on or after 15 December 2016. There has been considerable research into the value of these types of disclosures leading up to and after the issuance of this new audit standard on communicating KAMs in the independent auditor’s report.

An experiment study asks the research question, *when do investors value key audit matters?*; the findings of which are very relevant to the context of LCEs audit reporting that currently excludes KAMs. Moroney et al. (2021) find that non-professional investors’ perceptions about an audit’s value and the auditor’s credibility are no different when provided with old versus new (but without any KAMs) audit report format. In investigating whether

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<sup>3</sup> This was the accepted terminology at the time. The appropriate description for this type of audit report according to ISA 700 is ‘unmodified’ audit opinions.

KAMs inclusion affects these unsophisticated users' perceptions, the authors find that yes, it does improve perceived value and credibility but only for audits conducted by the smaller audit firms (i.e., not the Big 4). Big 4 audits are not perceived to be of any higher quality in the presence of KAMs, and the number of KAMs reported do not affect investor perceptions regarding the value and credibility of an audit by all audit providers (Big 4 and non-Big 4). The authors also find that the inclusion of KAMs detracts users' attention away from other core messages of the audit report. Another experiment examines sophisticated users (105 bank directors) perceptions and finds no material effect when the audit report is expanded to include KAMs or materiality levels (BooLaky and Quick, 2016). Materiality disclosure has been observed to be voluntarily reported in the Australian context by a single audit firm, PwC. Kend and Nguyen (2020) rationalise that the release of materiality thresholds by PwC in their audit reports may be to enhance users' understanding of KAMs if they are also made aware of auditor judgments around audit scope and materiality. Further, in investigating recent audit reform in Australia, the authors find that around 70% of Australian auditees had the same KAMs disclosed between the initial two years (2017-2018), and differences exist between client industry sectors and size in relation to KAMs reporting. Notably, the average number of KAMs reported and audit procedures undertaken per KAM vary between large and small audit practitioners, indicating differential reporting of KAMs in practice, which may be a function of firms' policies on KAMs implementation and disclosure or client-related factors.

An early archival study to look at expanding audit disclosures came from France as they have required 'justification of assessments' in audit reports since 2003. Bédard, Gonthier-Besacier, and Schatt (2019) found no significant affects from this expanded disclosure in terms of market reactions or audit outcomes. The first archival research to specifically assess the consequences of adopting the new expanded auditor's report (EAR) came out of the United Kingdom, one of the first to implement the EAR internationally. Using difference-in-differences analyses and company data over the period 2011-2015 (surrounding EAR requirements effective 30 September 2013), Gutierrez et al. (2018) does not find evidence that the new audit report format significantly affected investors' short-term reaction to the release of auditors' reports. This indicates that the EAR lacks incremental or decision-useful information beyond that provided in traditional audit reports. Lennox et al. (2021) echo this finding by utilising long-window tests to rule out any delayed investor reactions to EARs, the number and types of auditors' risk disclosures. The authors conclude that investors were aware of entity-specific financial reporting risks well before auditors disclosed these in the EARs. Overall, premium-listed UK entities lie at the high end of the size and reporting quality spectrum, whereby additional audit disclosures adds little to an already rich information environment.

Research has also examined the indirect consequences of the new reporting regime on audit quality and fees. Regarding audit quality using the absolute value of discretionary accruals as a proxy, Gutierrez et al. (2018) does not find any evidence of an impact from the EAR implementation, whereas another study does. Specifically, Reid et al. (2019) find that EAR in the UK is associated with an improvement in financial reporting quality. However, their proxies of absolute abnormal accruals, the propensity to just meet or beat analyst forecasts, and earnings response coefficients are not exclusively indicative of higher audit quality (but rather overlap with earnings quality). All three aforementioned UK studies conclude that the introduction of EAR did not significantly impact audit costs in terms of audit fees. However, higher audit fees have been observed in other jurisdictions. For example, Li et al. (2019) find that upon adopting the new audit reporting requirements in New Zealand, audit fees increased significantly by an average of NZD36800. The authors also note an



improvement in audit quality as seen by a reduction in absolute abnormal accruals. They propose three-fold reasoning for their findings. First, the theory of credence goods may explain the audit fees increase, whereby auditors act strategically to charge higher fees even though additional disclosures per se may not entail additional audit effort. Second, additional disclosures may actually require greater audit effort resulting in the observed higher audit fees. Third, since EAR requires auditors to disclose audit-specific information, they may, in fact, be pricing in potential liability costs.

Research has investigated the likely impact of expanded audit disclosures on perceived auditor liability. Employing an experimental design, Gimbar et al. (2016) manipulate US Critical Audit Matter (CAM) disclosure (i.e., no CAM, CAM related to a litigated issue, or unrelated CAM) and accounting standard precision (precise or imprecise) to gauge negligence assessment by eligible jurors. The authors find their participants to have a lower propensity to issue verdicts against the auditor when CAM is absent, and the client's accounting follows a precise accounting standard (compared to an imprecise or principles-based standard). Further, under precise standards, both related and unrelated CAMs are found to increase auditor liability. Regarding an interaction of the two factors, CAMs are found to increase auditor liability by a lesser amount under imprecise standards than precise standards; this may be because jurors perceive auditors to have a causal role and greater ability to foresee audit failures under the latter accounting treatment. In contrast, using an experimental case where accounting standards are clearly violated (i.e., fraud case), Brasel et al. (2016) find that perceived auditor liability is lower for auditors who disclose any CAMs (related or unrelated) relative to auditors stating that there were no CAMs. Another study reconciles these mixed findings by presenting experimental evidence that CAM disclosures involving measurement uncertainty have a forewarning effect. Perceived auditor responsibility is mitigated for material misstatements that are related to disclosed CAMs (Kachelmeier et al., 2020).

The main ways in which the effect of KAM disclosure has been measured is through investors' perceptions, market reactions and perceived auditor liability. Gold and Heilmann (2019) undertook a literature review of KAMs research, reporting that overall, studies provide mixed results regarding investor behaviour and market reaction to these types of additional disclosures to the audit report. Therefore, in the question of how the audit report for LCE should be communicated, the mixed research on KAMs might suggest that there is not a great benefit in requiring this sort of audit report disclosure in the audit for LCE. Particularly given the reduced size of LCEs and if full consideration is given to both the costs as well as benefits of this type of additional disclosure.

### **Different levels of assurance**

Research on the different levels of assurance that might be provided and how users might perceive this is another question that could be considered in audit reports for LCE. Most of the research that addressed this issue occurred a number of years ago when auditor review reports were first issued. Review engagements provide limited assurance compared to the standard audit. In surveying financial analysts, Pany and Smith (1982) found that analysts could not distinguish between the two different types of assurance engagements. Johnson et al. (1983) examined lenders' decision making and found that the level of assurance did not affect lending decisions. Nair and Rittenberg (1987) examined the messages conveyed by nine different forms of auditor's reports to bankers. They did find differences, but the auditors' reports were manipulated 'within subjects', which would have highlighted the differences to users. These early US studies do raise questions about how well differing levels of assurance are understood

and suggest that users have difficulties distinguishing between audit engagements and more limited engagements, such as a review.

Roebuck et al. (2000), examined whether assurance report users differ in their identified level of assurance as a result of the description of the nature of the engagement and the amount of work performed. Their sample consisted of shareholders from the Australian Shareholders Association. They found a higher level of assurance attached to historical compared to prospective reports, but no differences between the reports attempting to communicate higher versus lower levels of assurance as a result of the description of the work performed. In a monograph titled *The Determination and Communication of Levels of Assurance Other than High*, issued by the International Federation of Accountants (IFAC) in 2002, it was found that the difference between a moderate and a high level of assurance was not well understood by clients, and even less so by third parties (Maijoor et al. 2002: 111).

*2.10 Question 16: Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.*

- We recommend extending the standards related to agreed-upon procedures to cover LCEs (question 16)

In response to Question 16, we recommend that requirements relating to the ISA 800-series shall be included in ED-ISA for LCE. In Australia, privately entities can self-assess and then determine whether they prepare general purpose financial reports (GPFR) or special purpose financial reports (SPFR). The criterion is whether they perceive themselves as a reporting entity (AASB 1053).<sup>4</sup> Most of these companies are small to medium size businesses, and they account for more than 99 percent of businesses in Australia (Carey, Potter, and Tanewski 2014; Potter, Pinnuck, Tanewski, and Wright 2019). In other words, more than 99 percent of audits are likely to be subjected to ISA 800 which provides guidance on the audit of SPFR. Given that the ED-ISA for LCE is targeting the audit of these private sector businesses, as well as the “standalone” nature of the ED-ISA for LCE, we recommend that more clear requirements regarding how to apply the ED-ISA for LCE to audit GPFR to be included.<sup>5</sup>

In addition, Potter et al. (2019) find that companies that prepare SPFRs produce low quality and less in time financial reports. It is a concern that the financial report quality will deteriorate after the introduction of the ISA for LCE if companies do “audit standard shopping” which enables favourable audit outcomes. A similar scenario is that clients choose auditors who are willing to issue a clean audit opinion (i.e., opinion shopping) (Lennox 2000; Chan et al. 2006; Defond and Zhang 2014). Therefore, it is necessary to have clear requirements on the authority of ED-ISA for LCE for SPFR audits.

*2.11 Question 17: In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows:*

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<sup>4</sup> Australia is the only country that allows such self-assessment on the application of GPFR or SPFR (Yang and Simnett 2020). However, this suggestion also applies to other jurisdictions where SPFR is allowed.

<sup>5</sup> IAASB agreed to focus on developing an auditing standard for audits of complete sets of general-purpose financial statements of LCEs first (explanatory memorandum to ED-ISA for LEC para. 150)

a. *Whether the proposed standard can, and will, be used in your jurisdiction.*

- We urge the IAASB to encourage users to participate in the development process of the ED-ISA for LCE in order to satisfy their needs and solve any possible conceptual and practical challenges to implement this regulation.

Financial reporting research provides country-level evidence on the adoption of IFRS for SMEs, which might shed some light on the potential use of ED-ISA for LCE by jurisdictions (Damak-Ayadi et al. 2020; Eierle and Haller 2009; Gassen 2017; Kaya and Koch 2015; Quagli and Paoloni 2012; Perera and Chand 2015). In summary, we feel that there will be cross-country variation in the implementation of the ED-ISA for LCE. We expand on this point below.

In a descriptive analysis by the IFRS Foundation on 166 jurisdictions (IFRS 2019), 144 jurisdictions required full IFRS for publicly accountable entities up to April 2018, including several countries that had adopted them nearly word for word as their national accounting standards, such as Australia and New Zealand. Out of the 166 jurisdictions, 86 required or permitted IFRS for SMEs, and Australia and New Zealand are not included in this sub-group. There is evidence that suggests that Australia and New Zealand are of the view that IFRS for SMEs are still complex in the recognition and measurement requirements (Devi and Samujh 2015<sup>6</sup>; Perera and Chand 2015). Australia is also of the view that coexistence of opposing IFRS recognition and measurement principles for identical circumstances harms the standards and also the practitioners. Thus, Australia and New Zealand have developed differential reporting for SMEs. Research in European countries have found that German-speaking and Latin countries show less appreciation for IFRS for SMEs with respect to Anglo-Nordic jurisdictions (Quagli and Paoloni 2012).

Damak-Ayadi et al. (2020) examine the macro-level determinants on IFRS for SMEs adoption based on the neo-institutional theory<sup>7</sup> and the economic theory of networks<sup>8</sup>. Their empirical analysis on 177 countries between 2009 and 2015, including 77 jurisdictions that adopted IFRS for SMEs, confirms that the implementation is related to law enforcement quality, culture, trading networks, economic growth, coercive isomorphism and normative isomorphism. Their results also point out that the political system, tax system and mimetic isomorphism have no effect. Consistently, Ramanna and Sletten (2014) find that network benefits increase the degree of IFRS harmonization among countries and smaller countries respond differentially higher to these benefits. In regards to ISAs implementation, there is also evidence based on the neo-institutional theory that shows that the protection of minority interests, regulatory enforcement, lenders/borrowers rights, foreign aid, prevalence of foreign ownership, educational attainment and the level of democracy are significant predictors of the harmonisation of ISAs (BooLaky and Soobaroyen 2017).

Using country-level interview data in 24 jurisdictions, Gassen (2017) finds significant cross-country differences and shows that IFRS for SMEs has provided a blueprint for national

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<sup>6</sup> In Australia and New Zealand, SMEs do not need to prepare general purpose financial reports. Instead, they prepare special purpose financial reports in compliance with taxation regulations.

<sup>7</sup> Neo-institutional theory suggests that internationalized firms acquire more legitimacy, and organizational legitimacy establishes a connection between the firm and its environment in a socio-political context. Thus, organizations should adopt mechanisms of legitimacy even when environmental constraints exist.

<sup>8</sup> Economic theory of networks argues that countries adopt international standards when an economic partner is an adopter, considering the international regulation as a commodity or a product that could be adopted by a country.

regulatory reforms rather than becoming directly relevant to firms. In jurisdictions where there has been no discussion about the implementation, interviewees believe that their existing national regime is sufficient and better suited to cater to the national regulatory environment. In jurisdictions with non IFRS-based accounting regimes, interviewees do not desire a mandatory adoption and voluntary reduces national comparability, offering few benefits to voluntary adopters. Countries adopting the standard think that it reduces complexity by implementing a more principles-based, simplified and up-to-date financial reporting regime that remains relatively similar to IFRS (already in place). Countries that decide to use concepts from IFRS for SMEs to reform their national regimes do it for sovereignty concerns and existing regulatory consequences like taxation or dividend distribution. In jurisdictions where substantial parts of IFRS for SMEs are transformed into the national reporting regime, experts value the consistency and comparability across firm groups (public and private).

Apart from country-level adoption of IFRS for SMEs, some studies have also examined the implementation by firm- and user-level (Eierle and Haller 2009; Gassen 2017; Kaya and Koch 2015; Quagli and Paoloni 2012). Using firm-level archival data of 128 countries, Kaya and Koch (2015) show that jurisdictions not capable of developing their own local accounting regulation framework are more likely to adopt the standard, and that the likelihood of adoption increases in jurisdictions where full IFRS have been applied, reducing the financial reporting burden on SMEs. They also suggest that a reason for adopting the standard is the existence of relatively low quality of governance institutions. Additional evidence to support the under-representation of developed economies in IFRS for SMEs can also be found in Devi and Samujh (2015).

Regarding users of IFRS for SMEs, which might assimilate to those of ED-ISA for LCE, Quagli and Paoloni (2012) examine the answers to the “Questionnaire on the public consultation of the IFRS for SMEs”, and find a substantial diversity among respondents. In particular, preparers demonstrate a strong opposition to IFRS for SMEs, while users are more favourable. Later on, Gassen (2017) expands the evidence on user-level adoption of IFRS for SMEs suggesting that addressees slightly differ among jurisdictions. Banks, tax authorities, and, in a lower degree, inside and outside shareholders, appear to be the main users. However, while every expert considers banks to be relevant, tax authorities are sometimes mentioned as the prime users or not considered at all (for example, in Australia).

Finally, prior literature has critically evaluated the development and implementation of IFRS for SMEs regarding the meet of users’ needs (Devi and Samujh 2015; Perera and Chand 2015). Research suggests that the user orientation was not adequately addressed during the standard setting process. This implies that the IASB followed an indeterminate basis for simplifying full IFRS. In light of the cost-benefit considerations, SMEs may be hesitant in choosing IFRS for SMEs, if they do not clearly represent the user information needs. Thus, we urge the IAASB to encourage users to participate in the development process of the ED-ISA for LCE in order to satisfy their needs and solve any possible conceptual and practical challenges to implement this regulation.

*2.12 Question 22 The IAASB is looking for views on whether group audits should be excluded from (or included in) the scope of ED-ISA for LCE. Please provide reasons for your answer.*

*Question 24: 24. If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about how should be done (please provide reasons for your preferred option):*

- a. The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (“Option 1 - see paragraph 169); or*
  - b. ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.*
- We generally support the standard excluding group audits, but with an exception allowing group audits in cases where there are no other component auditors (questions 22 and 24)

In response to question 22, we recommend that group audits should not be included in the scope of ED-ISA for LCE when component auditors are materially involved in the group audit engagement. However, if component auditors are not materially involved in the group audit engagement, we cannot draw a conclusion on whether group audits shall be excluded from the scope of ED-ISA for LCE due to the lack of relevant literature. In other words, we would suggest IAASB to re-consider allowing the application of ED-ISA for LCE if component auditors are not materially involved in the group audit engagement.

Extant group audit literature uses various research methodologies such as interview, survey, and archival data analyses to investigate problems faced by auditors engaged in audits of group financial statements (Sunderland and Trompeter 2017; Downey and Bedard 2019; Downey, Obermire, and Zehms 2020; Saiewitz and Wang 2020; Downey and Westermann 2021; Carson, Simnett, Thürheimer, and Vanstraelen 2021). This line of literature finds that the challenges for group audit engagements include poor coordination and communication between group auditor and component auditors (Downey and Bedard 2019; Downey and Westermann 2021), cross-cultural differences and language barriers between group auditor and component auditors (Saiewitz and Wang 2020; Downey, Obermire, and Zehms 2020), and over reliance on component auditors (Carson et al. 2021). The theory developed by Hanes (2013) argues that these issues resulted from the geographically distribution of different audit teams. As most of these issues arise from the involvement of component auditors, we infer that group audits become complex and should be excluded from the scope of ED-ISA for LCE when component auditors are involved materially.

It is still an open question whether auditors face similar issues when audit clients are small and less complex, especially when component auditors are not materially involved. However, most of group audit studies draw their conclusions from samples of audit engagements for large listed or multinational entities. One hint provided by Carson et al. (2021) is that the involvement of component auditors increases audit quality if the principal auditor still performs a major part of audit (i.e., when less than approximately 30% of total audit fees are paid to the component auditors).<sup>9</sup> Meanwhile, this involvement of component auditors increases audit fees. Even though this study also uses a sample of multinational group audits, it implies that we probably shall not eliminate the possibility to apply ED-ISA for LCE under

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<sup>9</sup> Burke, Hoitash, and Hoitash (2020) examine the similar question in the U.S. setting and find a consistent result.

this circumstance (i.e., when component auditors are not materially involved), because the insignificant involvement of component auditors does not make audit tasks more complex or lead to low quality audits. Instead, it increases audit quality at the cost of higher audit fees.

### **3. Comments to the New Zealand Auditing and Assurance Standards Board**

New Zealand: the NZAuASB website asks these questions:

We particularly need to know whether:

- The proposed standard should be adopted in New Zealand. Would the standard be useful for New Zealand auditors and their clients? In what context?
- New Zealand stakeholders support the proposed standard's decision framework for determining the types of entities for which the ISA for LCE is not intended.
- New Zealand auditors agree that the proposed standard is clear, understandable and practical for auditing LCEs.
- New Zealand stakeholders have concerns regarding audits conducted in accordance with the proposed ISA for LCE?

Our comments to the IAASB in part 2 are above as relevant to these questions. We recommend that

- We agree with not including any quantitative threshold for application of the standard (Question 3)
- The specific prohibitions on the use of the ISA standard for listed entities and entities with certain functions should be removed in sections A.7 (b) and (c) (Question 4 (a)).
- We provide a list of characteristics of complex audits that have been used in research studies, supported by references (Question 4 (b)). We suggest further guidelines.

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## NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 5.1

**Meeting date:** 2 December 2021

**Subject:** NZAuASB 21/22 Implementation plan

**Date:** 19 November 2021

**Prepared By:** Misha Pieters

Action Required

For Information Purposes Only

### Agenda Item Objectives

- For the Board to:
  - NOTE the progress made towards the 2021/22 implementation plan.
  - PROVIDE feedback on actions to be undertaken within the next 6 months.
  - NOTE the 2021-2026 NZAuASB action plan to support the XRB's strategy.

### Background

- At its April 2021 meeting, the NZAuASB provided input into the NZAuASB Action Plan 2021-2026 in support of the XRB's Strategic Plan for 2021-2026.
- At its June 2021 meeting, the Board approved the annual cut of the NZAuASB 2021/22 implementation plan identifying the specific actions that will be undertaken in the period July 2021 to June 2022.
- At its September meeting, the XRB Chief Executive provided a summary of the XRB Board strategy day which largely confirmed the XRB 2021-2026 strategy with an increasing focus on incorporation of Te Ao Maori, a need to be agile given the pace of change, more explicit recognition of the change in mandate and the ongoing focus on audit quality and the value of audit.

### Matters for consideration

- The following information is relevant towards the statement of performance expectations for full year to June 2022:

Forecast to June 2022	Year to date
4 International based professional and ethical standards	3 issued (PES 3, PES 4, Objectivity changes to PES 1)
4 International based auditing and assurance related services standards	2 issued (ISA (NZ) 220 (Revised), Quality management conforming amendments to the ISAs)
2 New Zealand specific assurance standards	0 issued to date
3 EDs of domestic standards	2 issued (Non-assurance services and deferral of NZ AS 1)



Standards reflect international standards with departures only to improve quality	100%
Develop consultation document on ISAE NZ 3410	Work underway
Due process demonstrated by signing memo	100% compliance to date
25 outreach events to support development and raise awareness of assurance standards	11 to date (3 NAS events, 3 LCE events, 1 Quality management presentation, 1 update on IAASB projects, 2 speaking events on climate assurance, 1 general assurance presentation)

6. The following priority projects are underway and on track for June 2022:
- a. Issue of the Group Audits standards in the first half of 2022.
  - b. Finalisation of the non-assurance service and fees standards in first half of 2022.
  - c. Public interest entity definition expected to be approved by the IESBA in Dec 2021 to enable the development of a New Zealand exposure draft in the first half of 2022.
  - d. Development of a domestic exposure draft on capital fundraising by June 2022.
  - e. Progress the Greenhouse Gas assurance and ethical requirements.
  - f. Work with the Office of the Auditor-General to develop revisions to NZ AS 1 for audits of service performance information.
  - g. Prepare submissions in response to international consultations including on Less Complex Entities (Jan 2022), technology changes to the Code, the engagement team/group audit exposure drafts and the IESBA workplan survey.
  - h. Promote awareness of and track implementation challenges arising from the quality management standards and issue all conforming amendments standards.
  - i. Ongoing work to enhance targeted stakeholder outreach.
7. The following specified actions from the 21/22 implementation plan have no action taken to date or are on hold:
- a. Not yet considered request for guidance on example of compliance framework audit report for small NFPs.
  - b. Development of an exposure draft on the review of service performance information has been put on hold.
  - c. Development of standard or guidance on an alternative engagement for micro charities is on hold until further engagement or progress on any tier 5 reporting framework and as staff time allows.
  - d. The need for or priority of XRB guidance related to technology has not yet been determined.
  - e. Roger Simnett not yet invited to provide update on CUSP project.
  - f. Not yet actioned fostering relationship with Australian IESBA member.

- g. Agreement of vision for wider NASS group on hold until next in person meeting.
  - h. Not yet undertaken research on the effectiveness of KAM reporting during the COVID pandemic and issue a report summarising the findings.
8. The following matters may be additional actions to consider and reprioritise, given recent XRB strategic discussions:
- a. Determine what improvements to make to our standard setting processes to become more agile.
  - b. Understand and respond to changing public expectations for assurance.
9. Board members are asked to provide feedback on:
- a. The progress made to date and matters of priority for the remaining six months of the financial year.
  - b. The longer term 2021-2026 NZAuASB action plan to support the XRB's strategy.

**Material Presented**

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	21/22 implementation plan
Agenda item 5.3	2021-2026 NZAuASB action plan

## NZAuASB 21\_22 Implementation Work Plan

**In support of the XRB’s Strategic Plan 2021-2026, the NZAuASB’s planned actions is built around four key themes:**

1. Maintaining and enhancing existing standards
2. Influencing the development of international standards
3. Enhancing constituency engagement and support
4. Supporting the XRB to influence delivery of high quality audit and assurance services.

{Stuck through items agreed to carry forward to later years at the June 2021 meeting}

<p><b>Key:</b>  <b>Green</b> – ongoing activity and on track  <b>Orange</b> – action is work in progress and on track  <b>Red</b> – no action taken</p>
<p><b>1. Maintaining and enhancing existing standards</b></p>

Action 1.1	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p><b>Maintaining New Zealand Auditing and Assurance Standards</b></p> <p><i>The NZAuASB will amend the auditing and assurance standards (auditing standards, review engagement standards, other assurance standards, related services standards and professional and ethical standards) to ensure that the existing suite 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, as appropriate, and including working with the</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> <li>• Amend standards following due process as documents issued by</li> </ul>	<p>Issued four quality management standards (July 2021):</p> <ul style="list-style-type: none"> <li>• PES 3</li> </ul>

<p>AUASB to ensure any changes are appropriately harmonised; and</p>		<p>IAASB, which are expected to include:</p> <ul style="list-style-type: none"> <li>○ ISA 600 (Revised)</li> <li>○ Conforming amendments arising from Quality Management standards</li> <li>○ LCE (ED)</li> <li>○ Implications of the PIE definition on the IAASB standards (ED)</li> <li>• Liaise with AUASB in accordance with harmonisation process protocol</li> </ul>	<ul style="list-style-type: none"> <li>• PES 4</li> <li>• ISA 220 (Revised)</li> <li>• Conforming amendments to ISAs.</li> </ul> <p>Consideration of LCE ED submission (Dec 2021)</p> <p>Preliminary thoughts on implications of PIE definition on IAASB (Oct 2021)</p> <p>Convergence and harmonisation policy finalised</p>
<p>b. Incorporating any ethical standards, or amendments to those standards, issued by IESBA, to achieve convergence, as appropriate, and including liaising with the APESB to ensure any changes are appropriately harmonised.</p>		<ul style="list-style-type: none"> <li>• Amend standards following due process as documents issued by IESBA, which are expected to include: <ul style="list-style-type: none"> <li>○ Finalising the NAS and Fees standards for New Zealand</li> <li>○ Revisions to the PIE definition</li> <li>○ Technology (ED)</li> </ul> </li> <li>• Interact with APESB staff Chair, and Board as appropriate</li> <li>• Develop process to work towards trans-Tasman consistency, as appropriate, with APESB</li> </ul>	<p>Issued <i>objectivity amendments to the Code</i> (July 2021)</p> <p>Consideration of feedback on NAS exposure draft (Dec 2021)</p> <p>Preliminary thoughts on IESBA PIE Definition (Oct 2021)</p> <p>Channa Wijesinghe, Chief Executive APESB to dial into Dec NAS discussion</p>

<p>c. Responding as appropriate to any gaps /issues identified with the current suite of standards.</p>		<ul style="list-style-type: none"> <li>• Develop an appropriate response where such matters are identified. <ul style="list-style-type: none"> <li>○ Consider request for guidance on example of compliance framework audit report for small NFPs</li> </ul> </li> <li>• Utilisation of research and stakeholder engagement where appropriate.</li> </ul>	<p>Ongoing work with OAG on NZ AS 1</p> <p>Not yet started</p>
<p>d. Incorporating any amendments to international auditing and assurance standards to domestic standards where applicable, including liaising with the AUASB.</p>		<ul style="list-style-type: none"> <li>• Amend standards following due process and agreed policy, which are expected to include: <ul style="list-style-type: none"> <li>○ Conforming amendments to NZ AS 1</li> <li>○ Conforming amendments from QM standards.</li> </ul> </li> </ul>	<p>Proposed amendments to NZ AS 1 ED closed but on hold. Amending standard to defer NZ AS 1 to be approved out of session before Dec meeting (Dec 2021)</p> <p>Work underway to develop conforming amendments to domestic standards from QM (to consider in Feb 2022)</p>
<p>e. Developing domestic standards, and amendments to standards, as appropriate, including working with the AUASB to ensure, where relevant, domestic standards are appropriately harmonised.</p>		<ul style="list-style-type: none"> <li>• Develop or amend domestic standards following due process and agreed policy.</li> </ul> <p>3 domestic standards identified for 2021-2022:</p> <ul style="list-style-type: none"> <li>i. Assurance engagement standard on the performance and reporting of a Corporate Fundraising (refer action 1.4)</li> </ul>	<p>ED on corporate fundraising under development (Oct 2021)</p>

		<ul style="list-style-type: none"> <li>ii. Review standard on service performance information (refer action 1.5)</li> <li>iii. Engagement standard/guidance for smaller NFPs (refer action 1.6)</li> </ul>	<p>Issues paper (Sept 2021)</p> <p>Development of ED on a review standard on hold</p> <p>Development of report in progress – outreach in conjunction with LCE project (and any project on tier 5 reporting, if applicable)</p> <p>Development of standard/guidance put on hold until further engagement or opportunity to work with a “tier 5” reporting framework is progressed</p>
f. Ensuring that all due process requirements are satisfied in accordance with section 22 of the Financial reporting Act 2013 and associated XRB guidelines before a new standard (or amendment, authoritative notice, or other pronouncement) is approved for issue.		<ul style="list-style-type: none"> <li>• Approve signing memorandum with approval of standards</li> <li>• Include gazette notice in subsequent agenda following approval</li> </ul>	<p>Signing memo approved with standards</p> <p>Gazette notice for QM standards (Dec 2021)</p>
<b>Action 1.2:</b>	<b>Timing</b>	<b>2021/22 Planned Actions</b>	<b>2021/22 Actual Actions</b>
<b>Monitoring the Assurance Environment</b>			
<p><i>The NZAuASB will monitor the wider assurance environment, liaise with key participants in the financial and non-financial reporting “supply chain”, 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	<p>Passive monitoring via media, public sources, and relationship contacts, specifically implementation of recently effective standards:</p> <ul style="list-style-type: none"> <li>• KAM reporting for FMC reporting entities</li> <li>• Auditing of SSPs</li> <li>• Role and Mindset changes</li> </ul>	<p>Ongoing monitoring of IAASB PIR on auditor reporting (Technical Advisor to IAASB on working group).</p> <p>Ongoing work with OAG on NZ AS 1 on the audit of service performance in the public sector</p> <p>No matters identified in relation to ISA 315 (Revisions) in developing implementation support webpage.</p>

		<ul style="list-style-type: none"> <li>Identifying and assessing risks of material misstatements</li> </ul> <p>Monitor modified auditor reports and report <del>half-yearly</del> <u>in Feb each year</u> to Board.</p> <p>Monitoring matters regarding COVID-19 including:</p> <ul style="list-style-type: none"> <li>ongoing meetings with FMA and with assurance leaders about standards re Covid -19.</li> <li>Liaising with group of NSS representatives and IAASB staff to discuss possible issues.</li> <li>Issue guidance as appropriate</li> </ul>	<p>Modified auditor reports to Feb 2022</p> <p>Biggest issue identified, exacerbated in COVID context, is shortage of auditors. XRB Letter of Support for class border exception for auditors (refer to correspondence)</p> <p>No matters identified at NSS regarding COVID-19.</p>
b. Monitoring issues or gaps with the current suite of standards and responding as appropriate.	Ongoing	<ul style="list-style-type: none"> <li>Take action as appropriate as matters arise during the year.</li> </ul>	<p>Ongoing work with OAG on NZ AS 1 on the audit of service performance in the public sector.</p> <p>Update explanatory guides and website for inflationary changes to audit settings (Dec 2021)</p>
c. Tracking local and international research projects, monitoring academic research outputs in both New Zealand and Australia in conjunction with the AUASB and APESB and considering the implications for the New Zealand auditing and assurance standards.	Ongoing	<ul style="list-style-type: none"> <li>Monitor projects, including: <ul style="list-style-type: none"> <li>global extended external reporting and assurance developments</li> <li>academic research</li> <li>use of data analytics and artificial intelligence in auditing.</li> </ul> </li> </ul>	Ongoing

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"> <li>Interim Director participate at FMA Audit Oversight Committee meetings and report as necessary to the Board</li> <li>Analyse results of QA reviews for standards issues.</li> <li>Liaise with FMA on reviews conducted.</li> </ul>	<p>Ongoing</p> <p>Analysis of QA reviews (Dec 2021)</p> <p>Ongoing</p>
e. Assisting the XRB to contribute to government policy work relating to auditing and assurance standards.	Ongoing	<ul style="list-style-type: none"> <li>Interact with MBIE and other agencies as requested by them, or as identified as necessary</li> <li>Follow up with RBNZ regarding auditor reporting.</li> </ul>	<p>Input into Climate Reporting legislation as needed</p> <p>Working with RBNZ to amend the Orders in Council</p>
f. Monitoring activities and developments in the wider assurance standard setting space, particularly for changes coming out of the Monitoring Group review and major reviews in other jurisdictions, and considering the implications for the New Zealand auditing and assurance standards.		<ul style="list-style-type: none"> <li>Monitor developments and consider if any action is required.</li> </ul>	<p>Ongoing</p> <p>Specific implications raised to date to explore:</p> <ul style="list-style-type: none"> <li>PIE definition</li> <li>Audit fee and audit tenure disclosure</li> </ul>
<b>Action 1.3</b>	<b>Timing</b>	<b>2021/22 Planned Actions</b>	<b>2021/22 Actual Actions</b>
<b>Working together with the NZASB</b>			
This action will comprise:			
a. Liaising with the NZASB during the development stage of new or amending accounting standards		<ul style="list-style-type: none"> <li>Identify projects in collaboration with Chair</li> </ul>	Ongoing discussions on audit fee project – on NZASB Dec agenda



and any post-implementation reviews, to identify any audit or assurance considerations.		and Director Accounting Standards <ul style="list-style-type: none"> <li>• Raise awareness of issues on agenda and arrange for discussion when required.</li> </ul>	Ongoing discussions on PIE definition – for joint board discussion Q1 2022
b. Collaborating with the NZASB on projects where quality issues with accounting standards may have an audit or assurance impact.		<ul style="list-style-type: none"> <li>• Liaise with the NZASB as appropriate, expected to include: <ul style="list-style-type: none"> <li>○ IASB’s disclosure project</li> <li>○ IPSASB’s Measurement ED</li> </ul> </li> </ul>	NZAuASB input on the IPSASB’s measurement exposure drafts (Sept 2021)  Provided feedback on the disclosure project in June 2021
c. Periodically meeting with the NZASB and relevant staff to provide an update on the NZAuASB workplan (and vice versa receiving an update on the NZASB work plan).		<ul style="list-style-type: none"> <li>• Invite NZASB Chair and Director to meetings to provide update on NZASB workplan.</li> </ul>	NZASB Chair joined the Sept 2021 IPSASB discussion  Joint agenda meeting scheduled for April 2022
<b>Action 1.4</b>  <b>Developing an Assurance Standard on Corporate Fundraising</b>	<b>Timing</b>	<b>2021/22 Planned Actions</b>	<b>2021/22 Actual Actions</b>
<i>The NZAuASB will develop an assurance engagement on the performance of and reporting on a Corporate Fundraising, and consider the need to develop an assurance standard on Prospective Financial Information.</i>			
This action will comprise:			
Developing an assurance standard on the performance and reporting of a Corporate Fundraising in accordance with the due process for domestic standards, and in collaboration with the AUASB as appropriate.	Whole year. Approval of ED in October	<ul style="list-style-type: none"> <li>• Continue development of standard of Corporate Fundraising in accordance with the agreed project plan.</li> </ul>	ED on corporate fundraising under development (Oct 2021)  On track for development of ED by June 2022

		<ul style="list-style-type: none"> <li>• Liaise with the AUASB staff on the proposed standard.</li> <li>• <del>Liaise further with the OAG and consider the need to develop a standard on Prospective Information.</del></li> </ul>	
<b>Action 1.5</b>	<b>Timing</b>	<b>2021/22 Planned Actions</b>	<b>2021/22 Actual Actions</b>
<b>Developing a review standard on service performance information</b>			
<p><i>The NZAuASB will develop a review standard on service performance information for Public Benefit Entities (PBEs)</i></p> <p>The action will comprise:</p>			
Developing a review standard on service performance information 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"> <li>• New timeline to establish.</li> <li>• New sub-committee to be formed</li> <li>• Update from OAG on status and uptake of NZ AS 1</li> <li>• Monitor results of NZASB PIR of T3 and T4 standards</li> </ul>	<p>Development of ED on a review standard on hold</p> <p>Work on NZ AS 1 underway with the OAG</p>
<b>Action 1.6:</b>	<b>Timing</b>	<b>2021/22 Planned Actions</b>	<b>2021/22 Actual Actions</b>
<b>Developing an engagement standard/guidance for smaller NFPs</b>			
<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>			

<p>Developing an engagement standard/guidance for smaller NFPs in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.</p>	<p>Whole year.</p>	<ul style="list-style-type: none"> <li>• New timeline to establish to complete in 2021/2022.</li> <li>• Liaise with Charities and other stakeholders to obtain understanding of needs, and if can assist.</li> </ul>	<p>Provided input into developing report (Sept 2021)</p>
<p><b>Action 1.7</b> <b>Perform a post implementation review of the Compliance Engagement Standard</b></p>	<p><b>Timing</b></p>	<p><b>2021/22 Planned Actions</b></p>	<p><b>2021/22 Actual Actions</b></p>
<p><i>The NZAuASB will perform a post implementation review of the Compliance Engagement standard jointly with the AUASB to determine if further guidance is needed.</i></p> <p>This action will comprise:</p>			
<p>Performing a post implementation review of the Compliance standard jointly with the AUASB.  Considering if further application guidance is needed.</p>	<p>Timeline to establish with AUASB staff</p>	<ul style="list-style-type: none"> <li>• Liaise with the AUASB and develop a joint project plan for the post implementation review</li> <li>• Perform the post implementation review in accordance with the approved project plan</li> <li>• Consider the results together with the AUASB and decide whether further application guidance is needed.</li> </ul>	

Action 1.9: Promoting evidence informed standard setting	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p>A key objective of the XRB is to ensure that its standards are based on a user-needs approach, i.e., the assurance reports required by those standards provide the level of assurance and information required by users of those assurance reports for accountability and decision-making purposes.</p> <p>The XRB has established an Academic Forum to meet with academics once to twice per annum to identify areas for research relating to the XRB's standard setting. The NZAuASB plans to contribute and leverage this collaboration to identify areas for research relating to auditing and assurance standards.</p> <p>This action will comprise:</p>			
<p>a. Identifying applicable user needs research to undertake where appropriate.</p>	<p>Whole year.</p>	<ul style="list-style-type: none"> <li>Monitor developments and provide feedback on possible areas/ topics for research.</li> <li>Research the effectiveness of KAM reporting during the COVID 19 pandemic and issue a report summarizing the findings.</li> </ul>	<p>NZAuASB Chair presented joint AUASB/NZAuASB session at the AFAANZ conference on:</p> <ul style="list-style-type: none"> <li>The economic consequences of reporting KAMs in the auditor's report</li> <li>The impact of different lead auditor instructions to component auditors on the quality of the work undertaken by the component auditor.</li> </ul> <p>Not yet started</p>
<p>b. Taking opportunities through the XRB's academic forum to identify and encourage areas for research related to auditing and assurance standards</p>		<ul style="list-style-type: none"> <li>Consider and provide feedback on possible areas/ topics for research.</li> <li>Identify and agree any assurance related research areas for Academic on sabbatical to XRB in July.</li> </ul>	<p>Tom Scott researching:</p> <ul style="list-style-type: none"> <li>state of assurance on greenhouse gas assurance in New Zealand</li> <li>Impact of COVID on KAMs</li> </ul>

<p>c. Considering output of research available (including in liaison with the AUASB) and how this can best contribute to the quality of standard setting work.</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> <li>• Monitor outputs of research projects conducted on assurance matters</li> <li>• Perform search to identify available research on current IAASB, IESBA and NZAuASB projects and consider relevance of research output to the projects</li> </ul>	<p>Academic submission on LCE exposure draft Academic research on non-assurance services (Dec 2021)</p>
<p><b>Action 1.10</b> <b>Developing guidance material to support the consistent application of auditing and assurance standards</b></p>	<p><b>Timing</b> Ongoing</p>	<p><b>2021/22 Planned Actions</b></p>	<p><b>2021/22 Actual Actions</b></p>
<p><i>The focus of the NZAuASB specific actions will be to develop guidance material to support the consistent application of auditing and assurance standards</i></p> <p>This action will comprise:</p>			
<p>a. Developing staff FAQs and other non-authoritative guidance material to support consistent application of new and existing standards (where deemed required)</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> <li>• Consider ways to work with NSS and professional bodies as necessary, including a focus on <ul style="list-style-type: none"> <li>○ Implementation support for the QM standards</li> </ul> </li> </ul>	<p>Focus on awareness of new standards to identify what further implementation support is needed. Dedicated QM implementation webpage created.</p>
<p>b. Promoting awareness of IAASB and IESBA implementation support activities through XRB constituency engagement</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> <li>• Communication plans to include ways to promote awareness through LinkedIn</li> </ul>	<p>Quality management implementation webpage created.</p>

		<ul style="list-style-type: none"> <li>• Consider ways to make BfCs, and other IAASB/IESBA material available through the XRB website</li> <li>• Host events, write blogs or articles to raise awareness of standards and implementation support, including a focus on <ul style="list-style-type: none"> <li>○ Promotion of EER assurance guidance</li> </ul> </li> </ul>	<p>Series of LinkedIn Posts created to raise awareness.</p> <p>Interim Director recorded short video on Risk Assessment Process with AUASB.</p> <p>Interim Director presented at CAANZ conference</p>
c. Considering what further guidance is needed in the New Zealand environment and develop the guidance.	Ongoing	<ul style="list-style-type: none"> <li>• Monitor NZ need for additional guidance and develop as needed.</li> <li>• <del>Consider need for and priority of developing guidance on comfort letter engagements.</del></li> <li>• Consider need for and priority for guidance relating to technology.</li> </ul>	<p>Ongoing</p> <p>Not yet determined</p>
<b>Action 1.11 Improving the accessibility and usability of auditing and assurance standards</b>			
<p><i>The focus of the NZAuASB specific actions will be to assist the XRB in exploring opportunities to improve the accessibility and usability of the standards in response to evolving user expectations.</i></p> <p>The action will comprise:</p>			

<p><b>a.</b> Monitor IFAC and AUASB digital publication projects and contribute as needed. Consider and assess most appropriate action to recommend to the XRB regarding digitisation of XRB standards</p>		<ul style="list-style-type: none"> <li>Monitor IFAC and AUASB digital publication project and report back to NZAuASB as appropriate.</li> </ul>	<p>Ongoing</p>
<p><b>b.</b> Working with the IESBA to ensure NZ specific provisions can be incorporated into the eCode</p>		<p>Interim Director to continue to assist Working Group and to update Board on progress.</p>	<p>New IFAC ePub launched and eCode will be phased out.</p>
<p><b>Action 1.12</b> Contribute to the XRB’s initiative on non-financial disclosures</p>	<p><b>Timing</b> Ongoing</p>	<p><b>2021/22 Planned Actions</b></p>	<p><b>2021/22 Actual Actions</b></p>
<p><i>The implementation of non-financial reporting strategies will be led by the XRB Board with a priority focus to develop a strategy and guidance for climate related disclosures.</i></p> <p><i>The focus of the NZAuASB specific actions will be to play a role in ensuring financial and non-financial reporting standard setting developments remain connected to support an integrated approach to quality and trusted external reporting.</i></p> <p><i>The action will comprise:</i></p>			

<p>a. Actively monitoring XRB led initiatives in relation to non-financial reporting and contributing to the development of reporting guidance as appropriate, and work with others to ensure any assurance gaps are identified, understood, researched if necessary and addressed.</p>		<ul style="list-style-type: none"> <li>Monitor demand for and developments in assurance over non-financial reporting.</li> <li>Liaising with the CRD team during the development stage of the climate standards, to identify any audit or assurance considerations.</li> </ul>	<p>Ongoing</p> <p>XRB Chair and CE update (Sep 2021)</p> <p>NSS Tour de Table (Oct 2021)</p> <p>Ongoing – CRD team member to join GHG advisory panel</p>
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		<ul style="list-style-type: none"> <li>Address matters arising as appropriate.</li> </ul>	
b. Contribute to the development of assurance standards and guidance to address the assurance implications of the Financial Sector Climate Related Disclosures Bill, once finalized, and other types of non-financial reporting, as needed.		<ul style="list-style-type: none"> <li>Consider the need for guidance/standard changes to enable non-accountant practitioners to apply XRB auditing and assurance standards, including the quality management and ethical requirements, as needed</li> <li>Consider whether assurance standards are fit for purpose or what amendments or additional standards may be required</li> </ul>	<p>Roles and responsibilities and indicative timeline agreed Oct 2021</p> <p>XRB led initiative</p>
<b>2. Influencing the development of international standards</b>			
<b>Action 2.1</b>	<b>Timing</b>	<b>2021/22 Planned actions</b>	<b>2021/22 Actual Actions</b>
<b>Maintaining and enhancing relationships with the IAASB</b>	Ongoing		
<i>The NZAuASB will seek to build and maintain relationships with IAASB members and staff.</i>			
The Action will comprise:			



a. Attending relevant meetings and events (including National Standard Setters meetings).	Ongoing	<ul style="list-style-type: none"> <li>• Chair and Interim Director to attend NSS meetings</li> <li>• Chair to observe IAASB meetings in conjunction with NSS meeting or otherwise as appropriate</li> </ul>	Attended Oct 2021 NSS meetings
b. Taking opportunities to meet with IAASB members and staff.		<ul style="list-style-type: none"> <li>• Interact with key staff and Chair as appropriate</li> <li>• NZAuASB Chair and Interim Director to attend the NSS meeting.</li> </ul>	Brett James, Deputy technical Director IAASB, presented to NZAuASB on technology (Sept 2021)
c. Fostering relationships with and providing support to Australasian representatives on the IAASB and those who are involved in relevant working groups.		<ul style="list-style-type: none"> <li>• Have high-level discussions with Lyn Provost when appropriate</li> <li>• Invite Roger Simnett, IAASB member and Chair of the CUSP Task Force to provide an update on CUSP project.</li> <li>• Work with AUASB at chair and staff level to influence international agenda.</li> </ul>	<p>Lyn to attend Dec 2021 meeting</p> <p>Roger will rotate off the IAASB in Dec 2021</p> <p>Ongoing</p>
d. Responding as appropriate to requests for information from the IAASB and any other relevant working groups.		<ul style="list-style-type: none"> <li>• Respond to requests for information as appropriate</li> </ul>	Completed request for information on audit evidence, going concern and PIE projects (Nov 2021)
e. Seeking opportunities to present the results of XRB research (and other thought leadership) on		<ul style="list-style-type: none"> <li>• Seeking opportunities to partner with international bodies on the XRB's climate work,</li> </ul>	None identified

topics of global interest at relevant IAASB events and other international forums.		as it relates to assurance matters. Present on relevant topics at NSS meetings.	
f. Inviting IAASB members and staff to present at NZAuASB meetings and other XRB constituent outreach events.		<ul style="list-style-type: none"> <li>• Invite Task Force Chairs or IAASB staff to present on relevant topics to the NZAuASB and outreach events. Possible topics include: <ul style="list-style-type: none"> <li>○ Technology</li> <li>○ QM standards</li> <li>○ LCE exposure draft</li> <li>○ Group audits</li> </ul> </li> </ul>	<p>September 2021 - Brett James, Deputy Technical Director, presentation on technology.</p> <p>Co-host IAASB LCE webinar in January at an Asia-Pacific friendly time</p>
g. Inviting Lyn Provost to Board meetings and providing high level support for her role.		<ul style="list-style-type: none"> <li>• Invite Lyn Provost to at least 2 NZAuASB meetings.</li> <li>• Monitoring the inputs of the Technical Advisory Group.</li> <li>• Monitor updates on IAASB meetings.</li> </ul>	<p>Lyn to attend the Dec 2021 meeting</p> <p>Technical advisory reports (Sep and Oct 2021)</p> <p>IAASB reports (Sep and Oct 2021)</p>
<b>NZAuASB Action 2.2:</b> <b>Maintaining and enhancing relationships with the IESBA</b>	<b>Timing</b>	<b>2021/22 Planned Actions</b>	<b>2021/22 Actual Actions</b>
<p><i>The NZAuASB will seek to build and maintain 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"> <li>Chair and Interim Director to attend NSS meeting.</li> <li>Chair to observe IESBA meetings in conjunction with NSS meeting or otherwise as appropriate</li> </ul>	<p>Attended Oct 26-28 NSS meetings</p> <p>Chair has observed IESBA meetings in PIOB role</p>
b. Taking opportunities to meet with IESBA members and staff.		<ul style="list-style-type: none"> <li>Interact with key staff and Chair as appropriate</li> </ul>	<p>Ongoing</p> <p>Discussions on the PIE definition with IESBA staff</p>
c. Fostering relationships with Australian representatives on the IESBA.		<ul style="list-style-type: none"> <li>Build relationship with Australian IESBA member – Invite to a NZAuASB meeting.</li> </ul>	<p>Not yet actioned. Consider inviting Ian McPhee to present on fees and NAS when NZ standards are finalised</p>
d. Responding, as appropriate, to requests for information from the IESBA and any other relevant working group.		<p>Respond to requests for information as appropriate</p>	<p>None identified (IESBA are seeking assistance on their technology initiative to develop non-authoritative material on technology but no resource identified for this purpose)</p>
e. Seeking opportunities to present the results of XRB research (and other thought leadership) on topics of global interest at relevant IESBA events and other international forums.		<ul style="list-style-type: none"> <li>Consider if there are relevant topics to present on at NSS meetings</li> </ul>	<p>None identified</p>
f. Inviting IESBA members and staff to present at NZAuASB meetings and other XRB constituent outreach events.		<p>Possible topics include:</p> <ul style="list-style-type: none"> <li>NAS and Fees implementation</li> <li>PIE definition</li> <li>Long association PIR</li> <li>Technology</li> </ul>	<p>Consider inviting PIE TF Chair Mike Ashley or Australian member to the Feb meeting/for a NZ outreach event to discuss PIE definition</p>
<b>NZAuASB Action 2.3:</b>	<b>Timing</b>	<b>2021/22 Planned Actions</b>	<b>2021/22 Actual Actions</b>

<b>Contributing to International Auditing and Assurance Standards Due Process</b>			
<p><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></p> <p>The Action will comprise:</p>			
<p>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.</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> <li>Issue alerts when international documents issued</li> <li>Organise consultation events as appropriate, in accordance with a consultation plan, with a focus on "why" the change</li> <li>Promote awareness on social media in accordance with the XRB policies.</li> </ul>	<p>Alerts have been issued for all international documents issued.</p> <p>Consultation events held:</p> <ul style="list-style-type: none"> <li>NAS webinar (Aug 2021)</li> <li>NAS panel discussion (Sept 2021)</li> <li>NAS virtual feedback forum (Oct 2021)</li> <li>LCE webinar (Oct 2021)</li> <li>LCE feedback forum – users (Oct 2021)</li> <li>LCE feedback forum – practitioners (Oct 2021)</li> <li>Assist IAASB LCE outreach event in Jan 2022</li> </ul> <p>Regular Linked-in posts as appropriate.</p>
<p>b. Responding, as appropriate, to IAASB and IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in consultation with the Australian Auditing and Assurance Standards Board (AUASB) and Australian Accounting and Professional Ethical Standards Board (APESB) where appropriate.</p>		<ul style="list-style-type: none"> <li>Prepare comment letters</li> <li>Liaise with AUASB in accordance with established protocol before letters finalised</li> <li>Liaise with APESB to the extent considered appropriate in each case</li> </ul>	<p>August 2021 – Complete IAASB 2022/23 Work Plan Survey</p> <p>Oct 2021 – Submission on quality management-related conforming amendments to the Code</p> <p>Jan 2022 – Submission on LCE</p>
<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"> <li>Participate in events in NZ or Australia (or elsewhere on an</li> </ul>	<p>Assurance staff attend virtual Australian LCE outreach events (Oct 2021)</p>

		exceptional basis) and online.	
<b>Action 2.4</b> <b>Contributing to the development of IAASB and IESBA projects</b>	<b>Timing</b>	<b>2021/2022 Planned Actions</b>	<b>2021/22 Actual Actions</b>
The action will comprise:			
a. Actively monitoring the work undertaken by the IAASB and the IESBA and engaging with staff on matters relevant to New Zealand, including continuing to contribute to the IAASB and the IESBA work as appropriate and achievable.	Ongoing	<ul style="list-style-type: none"> <li>Consider volunteering to assist IAASB or IESBA on topics of strategic significance to the XRB, as appropriate and as needed. These may include: <ul style="list-style-type: none"> <li>Fraud</li> <li>Going concern</li> <li>EER assurance</li> </ul> </li> </ul>	Monitoring opportunity to assist IESBA/IAASB joint panel on non-financial reporting.
<b>Action 2.5:</b> <b>Collaborating with other NASSs to ensure global standards are fit for purpose at jurisdictional levels.</b>	<b>Timing</b>	<b>2020/21 Planned Actions</b>	<b>2020/21 Actual Actions</b>
<p><i>The NZAuASB will be an active participant in the NASS collaboration project with the AUASB, Canadian and Netherlands NASSs.</i></p> <p>The action will comprise:</p>			
a. Participating in the exploration internationally of how NASSs can work more collaboratively with each other to address issues associated with current and recently released IAASB		<ul style="list-style-type: none"> <li>Agree Vision with the wider NASS group at the next in person NSS meeting</li> </ul>	On hold until in person resumes

<p>standards (e.g. the impact of technology on the audit, SMP/LCE audit issues, and the implementation of new or updated standards).</p>		<ul style="list-style-type: none"> <li>• Have quarterly phone calls with the NASS G4 group, and in-person meetings alongside the IAASB meetings.</li> <li>• Establish and maintain a NASS communications network</li> <li>• Continue to share and collaborate on work plans and specific projects identified amongst NASS G4 group to collaborate on.</li> </ul>	<p>Mid- year call in December with NASS G4 Chairs</p> <p>AICPA/AUASB/CAASB/NZAuASB Staff call on LCE (Nov 2021)</p>
<p>b. Identifying and exploring opportunities for the IAASB and National Assurance Standard Setters (NASS) to work collaboratively to enable more impactful support for the IAASB in progressing its current and future work.</p>		<ul style="list-style-type: none"> <li>• Liaise with the IAASB staff on NSS matters to work collaboratively on.</li> <li>• Contribute to planning NSS meetings.</li> </ul>	<p>Co-host IAASB LCE webinar in January at an Asia-Pacific friendly time</p>
<p>c. Continuing to develop an understanding of how NASS as a stakeholder group can better inform the implementation of the IAASB's current and future strategies, through global and regional actions that increase the value and perception of the audit.</p>		<ul style="list-style-type: none"> <li>• Participate in NASS meetings</li> <li>• Build relationships with other NASS in the ASIA PACIFIC region.</li> <li>• Develop a database of NASS contacts and invite them to join the NASS communications network.</li> <li>• Obtain support for a wider participation at annual NASS meetings</li> </ul>	<p>Mid- year call in December with NASS G4 Chairs</p>

d. Monitoring the implementation of the Monitoring Group's reforms, including consideration of the implications of the Group's new public interest framework for the work of the XRB and the NZAuASB both in New Zealand and internationally.		<ul style="list-style-type: none"> <li>Consider implications of the public interest framework, within the context of XRB's operations.</li> </ul>	<p>Harmonisation and convergence policy finalised, incorporates the public interest framework.</p> <p>To consider public interest framework in finalising NAS requirements.</p>
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### 3. Maintaining and enhancing constituency engagement and support

<b>NZAuASB Action 3.1:</b>  <b>Maintain and Enhancing Due Process Consultation</b>	<b>Timing</b>	<b>2020/21 Planned Actions</b>	<b>2020/21 Actual Actions</b>
<p><i>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.</i></p>			
<p>The Action will comprise:</p>			
<p>a. Contribute to the regular online XRB newsletters, social media posts and alerts to promote an awareness of the NZAuASB's activities of any new standards or guidance issued, and other standard setting developments.</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> <li>Awareness raising to focus on 'why the change' in the public interest</li> </ul>	<p>Pitopito Korero:</p> <ul style="list-style-type: none"> <li>Quality management standards (July 2021)</li> <li>Non-assurance services (Aug 2021)</li> <li>Less Complex Entities (Sep 2021)</li> <li>Perspectives on NAS (Oct 2021)</li> <li>QM standards (Nov 2021)</li> </ul> <p>Ongoing alerts and social media posts</p>
<p>b. Identifying and implementing innovative, targeted consultation methods with a focus on "why" the change, that are high value-added but relatively low-effort from the constituents' point of view.</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> <li>Continue current due process engagement methods</li> <li>Develop new communications &amp; engagement approach that reflects different target groups and helps</li> </ul>	<p>Communications plans developed for projects (except minor amendments)</p> <p>Stakeholder mapping underway</p> <p>Explore new outreach tools – Miro Board</p>

		to explain “why” changes are needed.	
c. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.		<ul style="list-style-type: none"> <li>• Maintain and update a constituent contact list, recognising that our constituents are widening all the time</li> <li>• Present updates on Auditing and Assurance standards to accounting, auditing, legal, and director community audiences</li> <li>• Promote other Topics as arise</li> <li>• Identify and engage with relevant groups about major new exposure drafts and standards.</li> </ul>	<p>Stakeholder mapping underway</p> <p>NAS Panel discussion involving IOD and Shareholders association</p>
d. Proactively seeking opportunities to engage with those involved in the external reporting of Maori incorporated entities – including preparers, advisors and users, as needed.		<ul style="list-style-type: none"> <li>• Participate in XRB engagement with Maori incorporated entities to identify any assurance related matters</li> </ul>	<p>XRB commenced a project to consider how to better incorporate the Te Ao Māori view into the reporting framework. No specific assurance matters identified to date.</p>
<b>Action 3.2: Undertaking On-Going Dialogue</b>	<b>Timing</b>	<b>2021/22 Planned Actions</b>	<b>2021/22 Actual Actions</b>
<p><i>The NZAuASB will undertake an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing &amp; assurance standards, including changes resulting from the evolving nature of the audit market.</i></p> <p>The Action will comprise:</p>			



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"> <li>Update and include liaison schedule as a standard agenda item.</li> <li>Organise regular meetings with key stakeholders identified on the liaison schedule</li> </ul>	<p>Practitioners met with NZAuASB (Oct 2021)</p> <p>Staff regular catch ups with CA ANZ, AUASB staff ongoing</p>
b. Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups.	Ongoing	<ul style="list-style-type: none"> <li>Organise seminars &amp; round tables</li> <li>Attend other fora</li> <li>Attend mid-tier forum</li> <li>Participate in Audit Summit meetings arranged by CAANZ and practitioners.</li> <li>Hold discussions with assurance leaders to discuss assurance matters.</li> </ul>	<p>Non-assurance panel discussion (Sept 2021)</p> <p>Assurance practitioners attend NZAuASB meeting (Oct 2021)</p> <p>XRB led discussions with assurance leaders (Sept 2021)</p>
c. Maintaining strong working relationships at the operational level with key constituent groups.	Ongoing	<ul style="list-style-type: none"> <li>Build relationships with key groups identified.</li> </ul>	Ongoing
<p><b>Action 3.3</b></p> <p><b>Improving engagement with assurance practitioners in small firms</b></p>			
<p><i>The NZAuASB will seek to improve engagement with assurance practitioners that are small firms and sole practitioners.</i></p> <p>The action will comprise:</p>			

<p>a. Specifically targeting this group when consulting about relevant standards using customised consulting approaches.</p>		<p>Maintain an updated contact list of SMPs and ensure they are included in outreach events targeted to their circumstances and interests.</p>	<p>Stakeholder mapping activity underway</p> <p>LCE webinar (Oct 2021) – 71 participants</p> <p>LCE virtual feedback forum (Oct 2021)</p>
<p><b>Action 3.4</b></p> <p><b>Promoting understanding of the auditing and assurance standards and engagements</b></p>	<p><b>Timing</b></p>	<p><b>2021/22 Planned Actions</b></p>	<p><b>2021/22 Actual Actions</b></p>
<p><i>The NZAuASB will undertake activities throughout the life-cycle of developing standards to promote an increased understanding of the auditing and assurance standards</i></p> <p>The Action will comprise:</p>			
<p>a. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that help raise awareness of:</p> <ul style="list-style-type: none"> <li>• assurance practitioners about new and revised auditing and assurance standards</li> <li>• users (where relevant) about auditing and assurance standards and the benefits of and options for enhancing credibility</li> </ul>		<ul style="list-style-type: none"> <li>• Speaking engagements as opportunities arise</li> <li>• Targeted meetings with users</li> <li>• Journal articles</li> <li>• Targeted newsletters</li> <li>• Social media notifications</li> <li>• Joint assurance and accounting update webinar twice annually</li> <li>• CAANZ Audit conference</li> <li>• AUT auditing 3<sup>rd</sup> year paper guest lecture</li> </ul>	<p>Massey advanced auditing lecture on Other assurance engagements (July 2021)</p> <p>LCE article for users (Sept 2021)</p> <p>Quality management presentation at CA ANZ audit conference (Nov 2021)</p> <p>LinkedIn Posts on Quality management standards</p> <p>LinkedIn Posts on EER assurance engagements</p>
<p>b. Promoting awareness of the IAASB and the IESBA implementation support activities.</p>		<ul style="list-style-type: none"> <li>• Make material available on the XRB website</li> </ul>	<p>Quality management focus webpage</p>

		<ul style="list-style-type: none"> <li>Social media notifications</li> </ul>	<p>ISA (NZ) 315 (Revised) focus webpage</p> <p>LinkedIn posts ongoing</p>
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## 4. Supporting the XRB to influence delivery of high-quality audit and assurance services

NZAuASB Action 4.1	Timing	2021/22 Planned Actions	2021/22 Actual Actions
<p><b>Supporting the XRB to Promote Understanding of the factors that Affect Audit Quality</b></p>			
<p><i>The focus of the NZAuASB's specific actions will be to work with other key organisations to enhance audit quality</i></p> <p>This action will comprise:</p>			
<p>a. Monitoring the outcome of stakeholder collaboration on audit quality and amending auditing standards where necessary.</p>		<p>Attend stakeholder collaboration meetings arranged by CAANZ and report on outcome.</p>	<p>XRB Chair, CE and Interim Director Assurance met with:</p> <ul style="list-style-type: none"> <li>IOD (July 2021)</li> <li>Big 4 and mid-tier firms (Sept 2021)</li> </ul>
<p>b. Assisting the XRB to develop an appropriate XRB response plan to the recommendations in the Brydon report and the Australian Inquiry where relevant to New Zealand.</p>		<p>Implement the XRB's strategic direction by:</p> <ul style="list-style-type: none"> <li>considering issues and developing recommendations and project plans as appropriate.</li> <li>Implementing the agreed actions in accordance with the approved project plans</li> </ul>	<p>XRB Chair &amp; CE update to NZAuASB (Sep 2021)</p> <p>Specific standard setting projects identified to date:</p> <ul style="list-style-type: none"> <li>PIE definition</li> <li>Audit fee</li> <li>Audit tenure disclosure</li> <li>Non-assurance services project</li> <li>Ways to enhance engagement between users of audit reports and auditors</li> </ul>

<p>c. Actively supporting the XRB in its work with regulators and other stakeholders to promote an understanding of the factors that affect audit quality.</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> <li>Promote the audit quality framework as opportunities arise</li> <li>Liaise with IOD and do an awareness raising session as part of the director education series</li> </ul>	
<p>d. 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.</p>		<ul style="list-style-type: none"> <li>Speaking engagements as opportunities arise</li> <li>Communicate awareness raising activities as appropriate in accordance with communications plan</li> <li>Promote guidance developed.</li> </ul>	<p>NAS Panel event focus on investors and director awareness of independence (Sep 2021)</p> <p>Ongoing promotion of four factor EER credibility model</p>



**NZ AUDITING  
AND ASSURANCE  
STANDARDS BOARD**

**NZAuASB Action Plan  
In support of the XRB's Strategic Plan  
2021-2026**

**For the five-year period**

**1 July 2021 to 30 June 2026**

Last Updated: June 2021

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# Introduction

## The NZAuASB

The New Zealand Auditing and Assurance Standard Board (NZAuASB) is a standard-setting sub-Board<sup>1</sup> of the External Reporting Board (XRB).<sup>2</sup>

The NZAuASB is responsible for conducting activities and delivering outputs that support the advancement of the XRB's organisational vision, purpose, and strategic priorities. This will be achieved through the NZAuASB fulfilling its core standard-setting activities and through strategic alignment with the New Zealand Accounting Standards Board (NZASB) supporting the XRB in promoting high-quality, credible, integrated external reporting across all sectors

Maintaining auditing and assurance standards that facilitate the conduct of high-quality independent audits and assurance engagements, which builds trust and confidence and encourage high-quality, meaningful, and well-accepted financial reports that are also recognised internationally<sup>3</sup>, is crucial to the achievement of the XRB's strategic objectives.

The NZAuASB has delegated authority from the XRB Board to develop or adopt and issue auditing and assurance standards (including professional and ethical standards for assurance practitioners and standards for related services<sup>1</sup>). In fulfilling this standard-setting role, the NZAuASB has an overriding objective of establishing a suite of auditing and assurance standards, including professional and ethical standards and related services standards, that engender trust and confidence in the quality of New Zealand external reporting.

### Primary responsibility of the NZAuASB

The primary responsibility of the NZAuASB is to develop or adopt, expose, finalise and promulgate the following consistent with the XRB's strategic objectives:

- auditing and assurance standards for use in audit or assurance engagements required by statute;
- professional and ethical standards to be applied by assurance practitioners undertaking statutory assurance engagements;
- standards for related services that may ordinarily be undertaken by an audit or assurance practitioner; and
- other assurance standards within the scope of any “additional assurance standards” approval provided by the Responsible Minister in accordance with the Financial Reporting Act 2013.

To meet that responsibility, the NZAuASB:

- ensures that the auditing and assurance standards are consistent with the XRB's financial reporting strategy, including:

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<sup>1</sup> The NZAuASB is established under Schedule 5 of the Crown Entities Act 2004, described as a Committee of the XRB.

<sup>2</sup> The XRB is an independent Crown Entity established under the Financial Reporting Act 1993 with continued existence under the Financial Reporting Act 2013, and subject to the Crown Entities Act 2004.

<sup>3</sup> International recognition is of particular importance under the XRB's financial reporting strategy for developing for-profit accounting standards.

- adoption of international standards, subject only to compelling reasons to enhance those standards in New Zealand and with the objective of harmonising New Zealand and Australian standards;
  - development of standards jointly with Australia; or
  - development of New Zealand specific standards as may be required by the XRB's strategy;
- develops and promulgates guidance material to support the application and implementation of issued standards;
  - undertakes or commissions research relating to auditing and assurance or matters concerning professional and ethical conduct;
  - enhance its collaboration with the NZASB on mutual projects;
  - in conjunction with the XRB board and the NZASB, liaises with and influences other stakeholders in the auditing and assurance dimensions of the XRB's financial reporting strategy, including all participants in the financial and non-financial reporting "supply chain";
  - collaborates with the Australian Auditing and Assurance Standards Board (AUASB), through reciprocal membership and liaison, and occasional joint meetings, to promote cooperation and the harmonisation of New Zealand and Australian auditing and assurance standards;
  - collaborates with the Accounting Professional and Ethical Standards Board of Australia (APESB), through liaison and observing APESB meetings, to promote cooperation and harmonisation of New Zealand and Australian professional and ethical standards for assurance practitioners;
  - on behalf of the XRB as New Zealand's national standard setter, participates in the activities of the international standard setting bodies responsible for auditing and assurance and professional and ethical standards;
  - maintains and enhances relationships with other national auditing and assurance and ethical standard setters (NSSs) and collaborates on matters of mutual interest; and
  - contributes to the development and implementation of the XRB's Strategic Plan, acting as thought leaders on assurance issues in support of the XRB's mandate and strategic objectives.

### The NZAuASB's Planned Actions 2021-2026

This document (the 'Plan') sets out the actions the NZAuASB<sup>4</sup> plans to undertake in the five-year period from 1 July 2021 to 30 June 2026 to give effect to the overarching strategic objectives of the XRB.<sup>5</sup>

The Plan is prepared on a rolling five-yearly basis and updated annually. As a dynamic document, it is monitored continuously to ensure it reflects the actions delivered to date and considers new actions in response to changes in the XRB's strategy<sup>6</sup>.

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<sup>4</sup> Reference to the NZAuASB in this Plan includes both the NZAuASB Board and the staff that support the NZAuASB Board.

<sup>5</sup> Set out in the XRB Strategic Plan 2021–2026.

<sup>6</sup> Based on responding to changes in the domestic and international environment.



## Context for the NZAuASB's Planned Actions 2021-2026

The primary purpose of the Plan is to establish the NZAuASB's planned actions in support of the XRB's strategic objectives and priorities for the period. The XRB's strategic objectives are built around the achievement of three key external reporting outcomes.

Credible	High-quality reporting and assurance that maintains trust and confidence in reporting in New Zealand and promotes transparency and accountability across all sectors of the economy.
Informative	Reporting that generates relevant, credible, and reliable information to support informed decision making and better outcomes for New Zealand.
Integrated	Reporting that encompasses both financial and non-financial information spanning the natural, human, social, and financial capitals that support intergenerational wellbeing.

Auditing and assurance standards are a significant element of the financial reporting "supply chain". Assurance standards are also increasingly important in non-financial reporting, including emerging forms of integrated reporting.

Currently, there is considerable international and domestic activity examining trust and confidence in financial reporting, including audit quality, the independence of auditors and audit firms, and competition in the audit market.

These are in addition to other disruptions like the Covid-19 pandemic, developments in artificial intelligence, other technology advances, calls for more climate change disclosures and changes in the professional accounting and assurance market place.

In the period from 1 July 2021 to 30 June 2026 the NZAuASB plans to continue to actively monitor such disruptions and consider the implications for the New Zealand auditing and assurance standards.

### Overarching priorities

#### Domestic priorities

Responding to the strategic context, and consistent with the XRB's strategic priorities, the NZAuASB will continue to strengthen its core work by ensuring that New Zealand auditing and assurance standards remain fit-for-purpose and are capable of serving the public interest – both in relation to regulated audits and more broadly. It will do so by:

- liaising with key participants in the financial and non-financial reporting "supply chain", and being responsive to emerging user needs;
- undertaking targeted outreach with practitioners and users in relation to standards under international revision;
- continuing its strong collaboration with the AUASB and the APESB; and
- promoting an evidence informed approach to its standard setting work.

The NZAuASB will actively support XRB initiatives that are relevant to its responsibilities or have auditing and assurance implications, including:

- Monitoring the XRB's integrated reporting project (which aims to take an active role in leading the development of climate change reporting, in New Zealand as it relates to users of "corporate" reports), contributing to the development of guidance as appropriate.

- Working with others to ensure any assurance gaps are identified, understood, researched if necessary and addressed.
- Actively supporting (including through its own outreach and liaison activities) the XRB’s work with regulators and other stakeholders to promote an understanding of the factors that affect audit quality.
- Monitoring the outcome of stakeholder collaboration on audit quality and amending auditing standards where necessary.

The NZAuASB will also enhance its collaboration with the New Zealand Accounting Standards Board (NZASB), including through joint projects and by providing any necessary support to the targeted review of the New Zealand accounting standards framework.

### **International priorities**

Recognising that New Zealand and Australia are primarily international “standard takers”, the NZAuASB will continue to seek ways to leverage its international influence in the international auditing and assurance standard setting (including the ethical standard setting) context.

This will include:

- seeking to influence the international discussion, through maintaining and building on current relationships with IAASB, IESBA and other national standard-setting groups;
- progressing the initiatives being undertaken jointly with the AUASB and the Canadian Auditing and Assurance Standards Board, and with the IAASB, to enhance cooperation between the international boards and the national assurance standard setters (NASSs) to promote effective international standard setting; and between NASSs themselves to leverage standard setting work being done in other jurisdictions,
- continuing to assist, where practicable, the IAASB and the IESBA to enhance cooperation between the international boards and the national assurance standard setters and national ethical standard setters (NSSs);
- (jointly with the AUASB) supporting the contributions of the New Zealand and Australian members of the IAASB; and
- supporting the development of thought leadership/research in New Zealand to help advance the international debate on specific issues.

## **Planned actions**

In support of the XRB’s Strategic Plan 2021-2026, the NZAuASB’s planned actions for the 2021–2026 period is built around four key themes:

1. Maintaining and enhancing existing standards
2. Influencing the development of international standards
3. Enhancing constituency engagement and support
4. Supporting the XRB to influence delivery of high-quality audit and assurance services

## **1: Maintaining and enhancing existing standards**

### **Overview**

The NZAuASB has an overarching responsibility for ensuring that the existing sets of auditing and assurance standards are maintained on an ongoing basis, fully converged with international

standards and harmonised with Australian standards, where appropriate, at all times, and retain local relevance and acceptance.

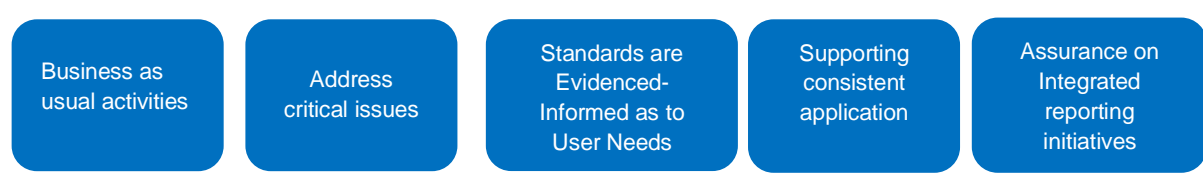
The focus of the NZAuASB planned actions in support of the XRB strategy is on ensuring convergence and harmonisation is maintained, including actively monitoring any issues emerging from the implementation of standards both in New Zealand and internationally, and responding to those issues where appropriate.

The NZAuASB plans to further enhance its collaboration with the NZASB on projects where quality issues with accounting standards may have an audit or assurance impact.

Domestic activities will include the issuance of supporting guidance and FAQ publications in response to emerging assurance issues and trends.

## NZAuASB’s planned actions

The planned actions are grouped into five main areas of activity.



### Business as Usual Activities

This section outlines the “business as usual” activities that the NZAuASB will undertake during the strategic period. These activities comprise the actions required to maintain the existing suite of standards in accordance with the XRB’s overarching strategy (convergence with international standards, and harmonisation with Australian standards where appropriate). To a large extent these activities are a continuation of the activities undertaken by the NZAuASB during the previous strategic period.

Specific action	This action will comprise...
<b>Action 1.1: Maintaining New Zealand Standards</b>	<p>Amending the auditing and assurance standards (auditing standards, review engagement standards, other assurance standards, related services standards and professional and ethical standards) to ensure that the existing suite of standards are maintained on an on-going basis, by:</p> <ul style="list-style-type: none"> <li>a. Incorporating any auditing and assurance standards or amendments to those standards, issued by the IAASB, to achieve convergence, as appropriate, and including working with the AUASB to ensure any changes are appropriately harmonised.</li> <li>b. Incorporating any ethical standards, or amendments to those standards, issued by the IESBA, to achieve convergence, as appropriate, and including liaising with the Australian Professional Ethical Standards Board (APESB) to ensure any changes are appropriately harmonised.</li> <li>c. Responding as appropriate to any gaps /issues identified with the current suite of standards.</li> <li>d. Incorporating any amendments to international auditing and assurance standards to domestic standards where applicable, including liaising with the AUASB.</li> </ul>

	<ul style="list-style-type: none"> <li>e. Developing domestic standards, and amendments to standards, as appropriate, including working with the AUASB to ensure, where relevant, domestic standards are appropriately harmonised.</li> <li>f. Ensuring that all appropriate due process requirements are satisfied in accordance with section 22 of the Financial Reporting Act 2013 and associated XRB guidelines before a new standard (or amendment, authoritative notice, or other pronouncement) is approved for issue.</li> </ul>
<p><b>Action 1.2: Monitoring the Assurance Environment</b></p>	<p>Monitoring the wider assurance environment, liaising with key participants in the financial and non- financial reporting “supply chain”, and considering the implications of any developing issues for New Zealand auditing and assurance standards.</p> <ul style="list-style-type: none"> <li>a. Monitoring issues arising from the implementation of the current suite of standards and responding as appropriate.</li> <li>b. Monitoring issues or gaps with the current suite of standards and responding as appropriate.</li> <li>c. Tracking local and international research projects, monitoring academic research outputs in both New Zealand and Australia in conjunction with the AUASB and APESB and considering the implications for the New Zealand auditing and assurance standards.</li> <li>d. Monitoring results from QA reviews conducted locally and internationally and considering the implications for New Zealand auditing and assurance standards.</li> <li>e. Assisting the XRB to contribute to government policy work relating to auditing and assurance standards.</li> <li>f. Monitoring activities and developments in the wider assurance standard setting space, particularly for changes coming out of the Monitoring Group review and major reviews in other jurisdictions and considering the implications for the New Zealand auditing and assurance standards.</li> <li>g.</li> </ul>
<p><b>Action 1.3 Working together with the NZASB</b></p>	<ul style="list-style-type: none"> <li>a. Liaising with the New Zealand Accounting Standards Board during the development stage of new or amending accounting standards and any post-implementation reviews, to identify any audit or assurance considerations.</li> <li>b. Collaborating with the NZASB on projects where quality issues with accounting standards may have an audit or assurance impact.</li> <li>c. Periodically meeting with the NZASB and staff to provide an update on the NZAuASB work plan (and vice versa receiving an update on the NZASB work plan).</li> </ul>

**Address critical issues**

This section outlines the new specific actions that the NZAuASB intends to carry out during the period of the XRB’s strategic Action Plan 2021-2026. These planned actions comprise activities that would not normally be undertaken as part of the business as usual actions outlined in section 1.

They also relate to issues or matters not addressed (or addressed in any detail) by the NZAuASB previously.

The purpose of these specific actions is to address any deficiencies or gaps in existing standards that are critical to user-needs and the quality of financial reporting. The actions required are to (a) identify critical issues; and (b) undertake appropriate actions to address those critical issues within a reasonable timeframe.

The NZAuASB is aware of a small number of critical issues with the existing standards and policies that it plans to address during the 2021–2026 period:

Specific action	This action will comprise...
<b>Action 1.4 Developing an Assurance Standard on Corporate Fundraising</b>	Developing an assurance standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.
<b>Action 1.5 Developing a Review Standard on Service Performance Information</b>	Developing a review standard on service performance information in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.
<b>Action 1.6 Developing an Engagement Standard/Guidance for smaller NFPs</b>	Developing an engagement standard/guidance for smaller NFPs, not required by statute to have an audit or review, to better meet the needs of users, as informed by research completed in 2016-17, in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.
<b>Action 1.7 Performing a post implementation review jointly with the AUASB on the Compliance Engagement Standard</b>	Performing a post implementation review on the Compliance Engagement Standard jointly with the AUASB to determine if further guidance is needed.
<b>Action 1.8 Performing a post implementation review of NZ AS 1 <i>The Audit of Service Performance Information</i> three years post implementation (2023/2024)</b>	Performing a post implementation review of NZ AS 1- <i>The Audit of Service Performance Information</i> .

#### Standards are Evidenced-Informed as to User Needs

A key objective of the XRB is to ensure that its standards are based on a user-needs approach i.e. the assurance reports required by those standards provide the level of assurance and information required by users of those assurance reports for accountability and decision-making purposes.

The XRB has established an Academic Forum to meet with academics once to twice per annum to identify areas for research relating to the XRB's standard setting. The NZAuASB plans to contribute and leverage of this collaboration to identify areas for research relating to auditing and assurance standards.

<b>Action 1.9 Promoting evidence informed standard setting</b>	<p>Identifying applicable user needs research to undertake where appropriate.</p> <p>Taking opportunities through the XRB's Academic Forum to identify and encourage areas for research related to auditing and assurance standards</p> <p>Considering output of research available (including in liaison with the AUASB) and how this can best contribute to the quality of standard setting work.</p>
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#### Supporting consistent application

The XRB recognises that its role in promoting relevant, credible, informative, and integrated external reporting does not end when a standard is issued. Fostering the consistent application of auditing and assurance standards is a key objective of the XRB.

The selection of guidance material will be based on responding to emerging issues and implementation challenges identified through *maintaining and enhancing constituent engagement and support* related activities and *monitoring of the assurance environment*.

A key element in promoting the consistent application of new and existing auditing and assurance standards is maintaining and enhancing the accessibility and usability of the standards issued by the XRB.

The XRB website is the sole source of auditing and assurance standards and other authoritative issued in New Zealand. It is therefore critical that the XRB explore opportunities to improve the accessibility and usability of its standards in response to evolving user expectations.

**Action 1.10: Development of guidance material to support the consistent application of auditing and assurance standards**

- a. Developing Staff FAQs and other non-authoritative guidance material to support the consistent application of new and existing standards (where deemed required);
- b. Promoting awareness of IAASB and IESBA implementation support activities through XRB constituency engagement activities.
- c. Considering what further guidance is needed in the New Zealand environment and develop the guidance.

**Action 1.11: Improving the accessibility & usability of auditing and assurance standards**

- d. Completing a feasibility assessment of the costs and benefits of introducing fully integrated digitised standards across all standards issued by the XRB; and
- e. Exploring other opportunities to increase the accessibility & usability of auditing and assurance standards.

**Integrated reporting Initiatives**

The XRB vision recognises that New Zealand prospers through effective decision making informed by high-quality, credible, integrated reporting. Integrated reporting encompasses both financial and non-financial information spanning the natural, human, social, and financial capitals that support intergenerational wellbeing.

The implementation of non-financial information reporting strategies will be led by the XRB Board. The priority focus of the XRB Board over the next period is the development of a strategy and guidance for climate related financial disclosures (CRFD).

The NZAuASB has an important role to play in ensuring financial and non-financial reporting standard-setting developments remain connected to support an integrated approach to quality and trusted external reporting.

Connected to the XRB initiatives in relation to non-financial reporting is the IASB's ongoing *Management Commentary* project. The project scope includes consideration of how broader financial reporting could complement financial statements prepared using IFRS Standards. This is a significant and important topic for New Zealand constituents in ensuring their financial reporting remains relevant and continues to meet increasing user expectations.

<p><b>Action 1.12: Contribute to the XRB’s initiative on non-financial disclosures</b></p>	<ul style="list-style-type: none"> <li>a. Actively monitoring XRB led initiatives in relation to non-financial reporting and contributing to the development of reporting guidance as appropriate, and work with others to ensure any assurance gaps are identified, understood, researched if necessary and addressed.</li> <li>b. Contribute to the development of assurance standards and guidance to address the assurance implications of the Financial Sector Climate Related Disclosures Bill, once finalized, and other types of non-financial reporting, as needed.</li> </ul>
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## 2: Influencing the development of international standards

### Overview

A key objective in the XRB Strategic Plan is to maintain the international convergence approach. Implicit in this approach is the need for the NZAuASB to mostly be a “standard-taker” i.e. to use the international standards as the base for New Zealand standards. For those standards to be appropriate in New Zealand, it is important for the NZAuASB to seek to influence international standards during appropriate stages of standards development to ensure high quality global standards that are both applicable in New Zealand and in the public interest.

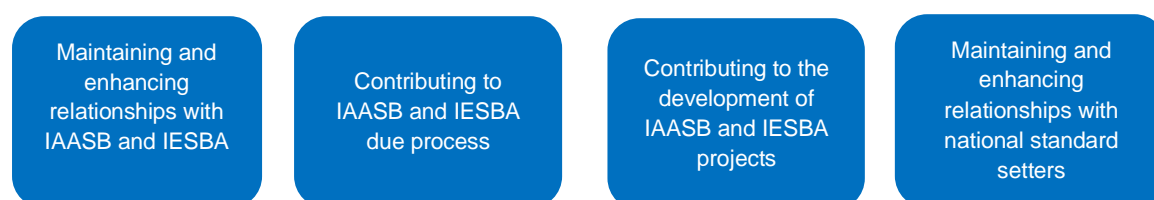
The purpose of the NZAuASB’s planned actions is to seek to influence the work of the international boards during the early stages of standards development through the establishment of “influencing strategies” specific to each international board.

### NZAuASB’s planned actions

The NZAuASB’s specific planned actions reflects the Board’s responsibilities for promulgating auditing and assurance standards. Its influencing strategies are therefore targeted at the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).

The planned actions also recognise the importance of maintaining relationships with other national standard-setters. Participation in the activities of standard-setters from different jurisdictions provides an additional mechanism for influencing international boards.

The planned actions are grouped into four main areas of activity.



<b>Maintaining and enhancing relationships with the IAASB and the IESBA</b>	
<p><b>Action 2.1: Maintaining and enhancing relationships with the IAASB</b></p>	<ul style="list-style-type: none"> <li>a. Attending relevant meetings and events (including NSS meetings);</li> <li>b. Taking opportunities to meet with IAASB members and staff;</li> </ul>

	<ul style="list-style-type: none"> <li>c. Fostering relationships with and providing support to Australasian representatives on the IAASB and those who are involved in relevant working groups;</li> <li>d. Responding, as appropriate, to requests for information from the IAASB and any other relevant working groups.</li> <li>e. Seeking opportunities to present the results of XRB research (and other thought leadership) on topics of global interest at relevant IAASB events and other international forums;</li> <li>f. Inviting IAASB members and staff to present at NZAuASB meetings and other XRB constituent outreach events; and</li> <li>g. Inviting Lyn Provost to Board meetings and providing high level support for her role (and monitoring the inputs of the Technical Advisory Group);</li> </ul>
<b>Action 2.2: Maintaining and enhancing relationships with the IESBA</b>	<ul style="list-style-type: none"> <li>a. Attending relevant meetings and events (including NSS meetings);</li> <li>b. Taking opportunities to meet with IESBA members and staff;</li> <li>c. Fostering relationships with Australian representatives on the IESBA;</li> <li>d. Responding, as appropriate, to requests for information from the IESBA and any other relevant working groups.</li> <li>e. Seeking opportunities to present the results of XRB research (and other thought leadership) on topics of global interest at relevant IESBA events and other international forums;</li> <li>f. Inviting IESBA members and staff to present at NZAuASB meetings and other XRB constituent outreach events;</li> </ul>
<b>Contributing to the IAASB and the IESBA due process</b>	
<b>Action 2.3: Contributing to International Due Process</b>	<ul style="list-style-type: none"> <li>a. Actively contributing to the “due process” activities of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), by: <ul style="list-style-type: none"> <li>• Ensuring assurance practitioners and relevant users of assurance reports are aware of the IAASB and the IESBA due process documents and encouraging them to make submissions directly to the international boards and to the NZAuASB;</li> <li>• Responding, as appropriate, to the IAASB and the IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in consultation with the AUASB and the APESB where appropriate;</li> <li>• Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.</li> </ul> </li> </ul>
<b>Contributing to the development of IAASB and IESBA projects</b>	
<b>Action 2.4 Contributing to the development of IAASB and IESBA projects</b>	Actively monitoring the work undertaken by the IAASB and the IESBA, and engaging with staff on matters relevant to New



	Zealand, including continuing to contribute to the IAASB and IESBA work as appropriate and achievable
<b>Maintaining and enhancing relationships with NSS</b>	
<b>Action 2.5: Collaborating with other NSSs to ensure global standards are fit for purpose at jurisdictional level</b>	<ul style="list-style-type: none"> <li>a. Be an active participant in the NASS collaboration project with the AUASB, Canadian and Netherlands NASSs, including: <ul style="list-style-type: none"> <li>i. Participating in the exploration internationally of how NASS can work more collaboratively with each other to address issues associated with current and recently released IAASB standards (e.g. the impact of technology on the audit, SMP/LCE audit issues, and the implementation of new or updated standards).</li> <li>ii. Identifying and exploring opportunities for the IAASB and national auditing and assurance standard setters (NASS) to work collaboratively to enable more impactful support for the IAASB in progressing its current and future work.</li> <li>iii. Continuing to develop an understanding of how NASS as a stakeholder group can better inform the implementation of the IAASB's current and future strategies, through global and regional actions that increase the value and perception of the audit.</li> </ul> </li> <li>b. Monitoring the implementation of the Monitoring Group's reforms, including consideration of the implications of the Group's new public interest framework for the work of the XRB and the NZAuASB both in New Zealand and internationally.</li> </ul>

### 3: Maintaining and enhancing constituency engagement and support

#### Overview

Auditing and assurance standards are best developed by working with a broad range of stakeholders in a collaborative manner, through maintaining and enhancing constituency engagement and awareness-raising activities. Constituency engagement is required to ensure the standards retain general acceptance and to identify any issues or challenges in a timely manner.

The XRB has a strategic focus on developing a stronger and deeper relationship with key stakeholder groups across the reporting cycle, including regulators, policymakers, government, and the wider business and NFP communities.

A priority outcome over this period is to seek ways of increasing our engagement with Māori, to better understand the extent to which the assurance standards framework addresses the information needs of Māori entities and reflects the Māori world view.

A primary objective of conducting constituent engagement activities is promoting awareness and communicating why a new standard or amendment has been proposed and/or issued. It is important

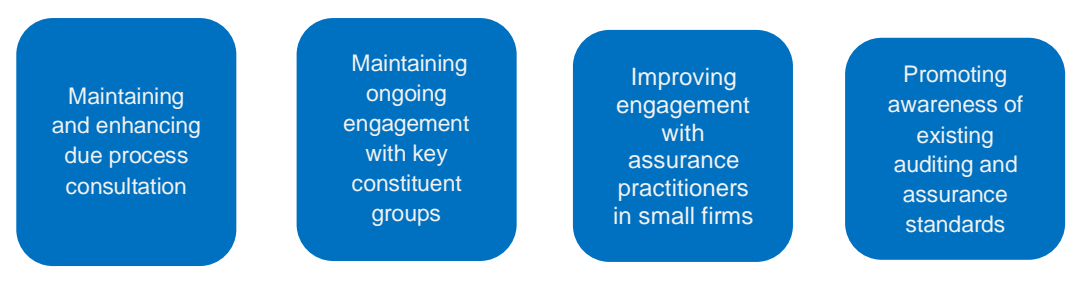
to explain how new pronouncements will improve accountability, transparency, and better decision making by users of integrated reports.

This strategy also includes maintaining relationships with key stakeholder groups to monitor any emerging issues to ensure the auditing and assurance standards continue to be “fit-for-purpose”.

### NZAuASB’s Planned Actions

The NZAuASB’s planned actions reflect the need to continue raising awareness of standard-setting projects in progress, recently issued auditing and assurance standards, and auditing and assurance standards soon to be effective. Recognising that the constituent group is widening all the time, the NZAuASB will seek to maintain and enhance consultation with major stakeholder groups across all sectors to receive feedback on specific issues relating to auditing and assurance standards, and to encourage feedback on due process documents.

The planned actions are grouped into four main areas of activity.



Specific action	This action will comprise...
<b>Action 3.1: Maintaining and Enhancing Due Process Consultation</b>	<p>Enhancing due process consultation with major user constituent groups<sup>7</sup> and all participants in the financial and non-financial reporting “supply chains” on specific issues relating to the auditing and assurance standards, especially consultation relating to due process documents, by:</p> <ul style="list-style-type: none"> <li>a. Contribute to the regular online XRB newsletters, social media posts and alerts to promote an awareness of the NZAuASB’s activities, any new standards or guidance issued, and other standard-setting developments;</li> <li>b. Identifying and implementing innovative, targeted consultation methods with a focus on “why” the change, that are high value-added but relatively low-effort from the constituents’ point of view; and</li> <li>c. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.</li> <li>d. Proactively seeking opportunities to engage with those involved in the external reporting of Māori incorporated entities – including preparers, advisors, and users, as needed.</li> </ul>
Maintaining ongoing engagement with key constituent groups	
<b>Action 3.2: Undertaking On-Going Dialogue</b>	Undertaking an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing and assurance

<sup>7</sup> CAANZ, CPA, FMA, IOD, NZX and others

	<p>standards, including changes resulting from the evolving nature of the audit and assurance market by:</p> <ol style="list-style-type: none"> <li>a. Meeting with major constituent groups on a rolling basis as part of the NZAuASB's regular meetings;</li> <li>b. Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups; and</li> <li>c. Maintaining strong working relationships at the operational level with key constituent groups.</li> </ol>
Improving engagement with assurance practitioners in small firms	
<b>Action 3.3: Improving engagement with assurance practitioners in small firms.</b>	<p>Seeking to improve engagement with assurance practitioners that are small firms and sole practitioners, by:</p> <p>Specifically targeting this group when consulting about relevant standards using customised consulting approaches.</p>
Promoting awareness of existing auditing and assurance standards :	
<b>Action 3.4 promoting understanding of the auditing and assurance standards and engagements</b>	<p>Undertake activities throughout the life-cycle of developing standards to promote an increased understanding of auditing and assurance standards by:</p> <ol style="list-style-type: none"> <li>a. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that help raise awareness: <ul style="list-style-type: none"> <li>• of assurance practitioners about new and revised auditing and assurance standards;</li> <li>• of assurance users (where relevant) about auditing and assurance standards and the benefits of and options for enhancing credibility;</li> </ul> </li> <li>b. Promoting awareness of the IAASB and the IESBA implementation support activities.</li> </ol>

## 4: Supporting the XRB to influence delivery of high-quality audit and assurance services

### Overview

Currently, there is considerable international and domestic activity examining trust and confidence in financial reporting, including audit quality, the independence of auditors and audit firms, and competition in the audit market. A key strategy of the XRB is to have a strong leadership and voice to influence the delivery of high- quality audit and assurance services in New Zealand.

### NZAuASB's Planned Actions



The NZAuASB's planned actions are to support the XRB in considering the global audit reforms to promote an understanding of the factors that affect audit quality in New Zealand, and to develop an


appropriate response plan to address implications for the auditing and assurance standards where necessary.



<p><b>Action 4.1: Support the XRB to promote Understanding of the Factors that Affect Audit Quality</b></p>	<ul style="list-style-type: none"> <li>a. Monitoring the outcome of stakeholder collaboration on audit quality and amending auditing standards where necessary.</li> <li>b. Assisting the XRB to develop an appropriate XRB response plan to the recommendations in the Brydon report and the Australian Parliamentary Inquiry where relevant to New Zealand.</li> <li>c. Actively supporting the XRB in its work with regulators and other stakeholders to promote an understanding of the factors that affect audit quality;</li> <li>d. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform all participants in the external reporting supply chain about the factors that affect audit quality.</li> </ul>
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## NZAuASB Action Plan Summary

The NZAuASB’s planned actions are summarised in the table below.

<p>1.</p>	<p><b>Maintaining and enhancing existing standards</b></p>	
	<p><b>Business as Usual</b></p> <p>The primary responsibility of the NZAuASB is to maintain and enhance the existing suite of auditing and assurance standards (including professional and ethical standards for assurance practitioners); and</p> <p>to continue the convergence and harmonisation approach (where relevant) for auditing and assurance standards.</p>	<p>Action 1.1: Maintaining New Zealand Standards</p> <p>Action 1.2: Monitoring the Assurance Environment</p> <p>Action 1.3: Working together with the NZASB</p>
	<p><b>Address Critical Issues</b></p> <p>This strategy is to address any deficiencies or gaps in existing standards that are critical to user-needs and the quality of financial reporting.</p> <p>The actions required under this strategy are to (a) identify critical issues; and (b) undertake appropriate actions to address those critical issues within a reasonable timeframe.</p>	<p>Action 1.4: Developing an Assurance Standard on the Examination of Prospective Information</p> <p>Action 1.5: Developing a Review Standard on Service Performance Information</p> <p>Action 1.6: Developing an Engagement Standard/Guidance for smaller NFPs</p> <p>Action 1.7: Performing a post implementation review jointly with the AUASB on the Compliance Engagement Standard</p> <p>Action 1.8: Performing a post implementation review of NZ AS 1 <i>The Audit of Service Performance Information</i> three years post implementation</p>
	<p><b>Standards are evidenced informed as to user’s needs</b></p>	<p>Action 1.9 Promoting evidence informed standard setting</p>

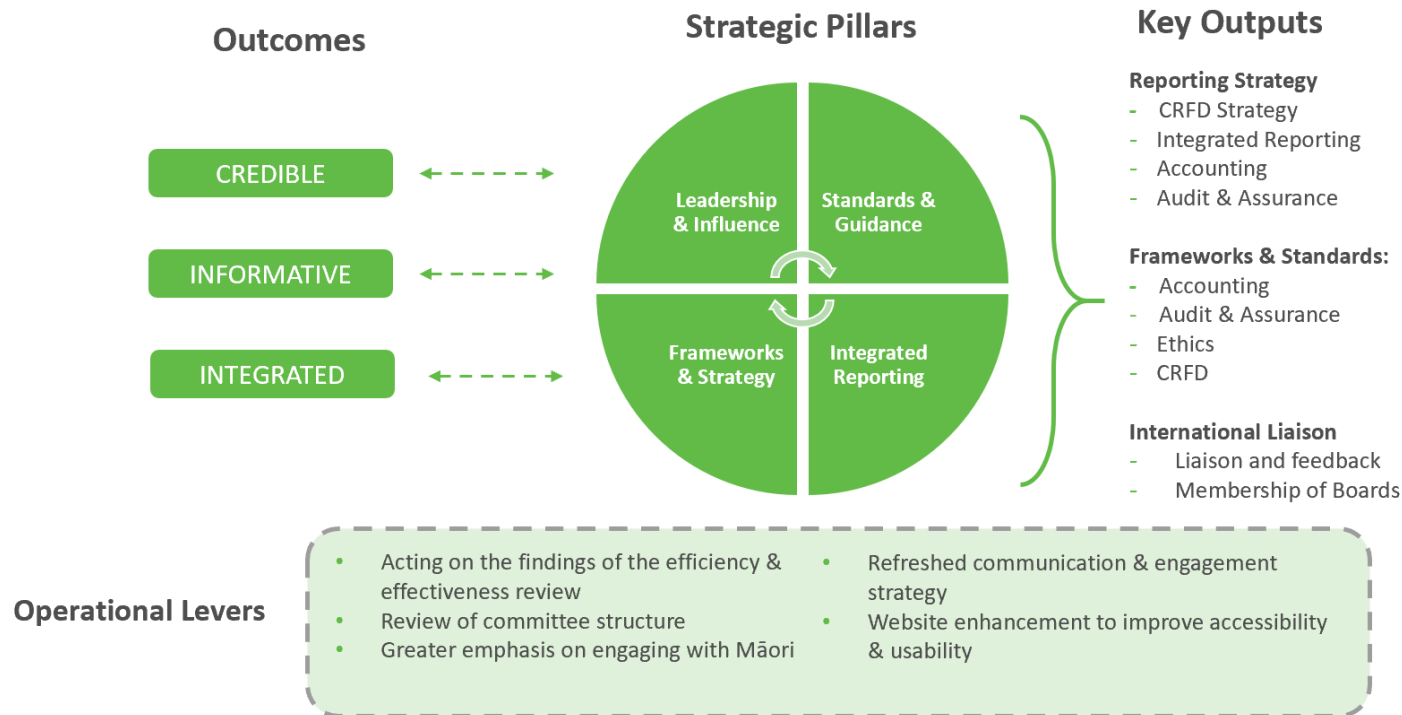
	A key objective of the XRB is to ensure that its standards are based on a user-needs approach i.e. the assurance reports required by those standards provide the level of assurance and information required by users of those assurance reports for accountability and decision-making purposes	
	<p><b>Supporting consistent application</b></p> <p>The XRB recognises that its role in promoting relevant, credible, informative, and integrated external reporting does not end when a standard is issued. Fostering the consistent application of auditing and assurance standards is a key objective of the XRB.</p>	<p>Action 1.10: Development of guidance material to support the consistent application of auditing and assurance standards</p> <p>Action 1.11: Improving the accessibility &amp; usability of auditing and assurance standards</p>
	<p><b>Integrated reporting initiative</b></p> <p>It is expected that the implementation of non-financial information reporting strategies will be led by the XRB Board. The priority focus of the XRB Board over the next period is the development of a strategy and guidance for climate related financial disclosures (CRFD).</p>	Action 1.12: Contribute to the XRB's initiative on non-financial disclosures
<b>2.</b>	<b>Influencing the development of international standards</b>	
	<p>The NZAuASB's specific planned actions reflects the Board's responsibilities for promulgating auditing and assurance standards. Its influencing strategies are therefore targeted at the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).</p>	Action 2.1: Maintaining and enhancing relationships with the IAASB
		Action 2.2: Maintaining and enhancing relationships with the IESBA
		Action 2.3: Contributing to International Due Process
		Action 2.4 Contributing to the development of IAASB and IESBA projects
		Action 2.5: Collaborating with other NSSs to ensure global standards are fit for purpose at jurisdictional level
<b>3</b>	<b>Maintaining and enhancing constituency engagement and support</b>	

	<p><b>Maintaining and enhancing constituency engagement and support</b></p>	<p>Action 3.1: Maintaining and Enhancing Due Process Consultation</p>
	<p>A key aspect of the XRB’s standard setting strategy is to ensure that standards are developed with constituents in a collaborative manner, through outreach, awareness raising activities and sector facilitation</p>	<p>Action 3.2: Undertaking On-Going Dialogue</p>
	<p>The NZAuASB will seek to maintain and enhance consultation with major stakeholder groups across all sectors to receive feedback on specific issues relating to auditing and assurance standards, and to encourage feedback on due process documents.</p>	<p>Action 3.3: Improving engagement with assurance practitioners in small firms.</p>
	<p>This also includes maintaining relationships with major user constituent groups<sup>8</sup> and all participants in the financial “reporting process” groups to monitor any emerging issues.</p>	<p>Action 3.4 Promoting understanding of the auditing and assurance standards and engagements</p>
<p><b>4.</b></p>	<p><b>Supporting the XRB to influence delivery of high-quality audit and assurance services</b></p>	
	<p>The NZAUASB’s planned actions are to support the XRB in considering the global audit reforms to promote an understanding of the factors that affect audit quality in New Zealand, and to develop an appropriate response plan to address implications for the auditing and assurance standards where necessary.</p>	<p>Action 4.1: Support the XRB to promote Understanding of the Factors that Affect Audit Quality</p>

<sup>8</sup> CAANZ, CPA, FMA, IOD, NZX and others

## Appendix A — XRB Strategic Plan 2020–2021: At a Glance

**Vision** New Zealand prospers through effective decision making informed by high-quality, credible, and integrated reporting.



9

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	7.1
<b>Meeting date:</b>	2 December 2021
<b>Subject:</b>	Due process considerations
<b>Date:</b>	19 November 2021
<b>Prepared By:</b>	Misha Pieters/Sharon Walker

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Action Required

For Information Purposes Only

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### Agenda Item Objectives

1. To note staff recommendations on how to streamline the Auditing and Assurance Standard Setting Process.

### Background

2. The increasing pace of change has been mentioned on several occasions in recent NZAuASB meetings. The need for agility is an increasing theme throughout the XRB and work is underway to consider how we can innovate to respond.
3. The development of the climate standard is necessarily within a tight timeframe, and the climate team is making use of an agile approach to develop the standard, with multi-phased outreach documents (with shorter consultation times).
4. The IAASB has worked on developing a [Framework for Activities](#) to describe its processes and procedures to prioritise activities in order to innovate and broaden their agility. The majority of the work of the NZAUASB is driven off of the IAASB's activities and therefore this process will necessarily impact the work of the Board.
5. Recently the AUASB issued its [Due Process Framework](#). The AUASB has introduced a narrow scope amendments process, where an exposure draft *may* be developed if considered appropriate. This narrow scope approach is described from paragraph 176 of the AUASB document. An example of a narrow scope amendment is the recent revision to ISA (NZ) 560 *Subsequent Events*. The comment period may vary depending on the nature and urgency of the amendment but is never less than 30 days.

### Matters to consider

6. The Standard setting Process that the NZAuASB follows is currently described in EG Au2, included in Agenda item 7.2. Generally, a 90-day comment period is allowed when developing a standard, but never less than 30 days.
7. Informally, we currently have a similar approach to the AUASB to narrow scope amendments, i.e., we advance these quickly through the Board (e.g., for legislative changes to our mandate, annual update standards, etc.). However, our current process is to expose *all* narrow scope amendments, including conforming amendments.



8. Examples of more recent conforming amendments which we have exposed in New Zealand include:
  - a. International conforming amendments
    - i. Quality management amendments to the ISAs, ISAEs and to the Code. We expose these simultaneously in New Zealand when the international standard setting board exposes the changes.
  - b. Domestic conforming amendments
    - i. Changes arising due to legislative changes to our mandate.
    - ii. Conforming amendments to NZ AS 1 *Audit of Service Performance Information* arising from ISA (NZ) 315 (Revised).
    - iii. Annual improvements 2020 to amend the definition of assurance practitioner in the Code
9. Work is currently underway to develop conforming amendments to the NZ SAE standards because of the quality management standards (expected “approval” at the April 2022 meeting).
10. The Financial Reporting Act 2013 requires the XRB to take reasonable steps to consult the persons or representatives of persons who, in the opinion of the Board, would be substantially affected by the issue of the standards.
11. In the past we have not received any submissions on the conforming amendments exposure drafts.
12. Staff recommend that in some instances, it may be unnecessary to develop a separate domestic exposure draft to reflect minor amendments, e.g., conforming amendments to reflect title changes, and terminology changes consistent with changes that have been made to international standards, which must be extended within the domestic standards or to correct edits. If it is considered that no persons would be substantially affected by the issue of these amending standards, then no exposure draft would be needed under the Financial Reporting Act 2013.
13. Staff recommend that for minor amendments, staff should consider whether persons would be substantively affected by the issue of the standard. If not, we propose to request approval by the NZAuASB of an amending standard in the first instance, rather than developing an exposure draft. In requesting this approval, the NZAuASB will also be asked to confirm whether they agree that no persons would be substantively affected by the issue of the standard.
14. In many instances, or if in doubt, it may still be considered necessary to expose the changes, e.g., the deferral of NZ AS 1, or the amendments to ISA (NZ) 560 on subsequent events are examples where staff might recommend exposing the changes. Our current processes already enable us to shorten the consultation period to 30 days at a minimum.
15. Staff intend to confirm this approach with the XRB Board in an updated EG Au2 document in the new year.

### **Material Presented**

Agenda item 7.1

Board Meeting Summary Paper

Agenda item 7.2

EG Au2 Overview of the Auditing and Assurance Standard Setting Process



*Te Kāwai Ārahi Pūrongo Mōwaho*

## **EXPLANATORY GUIDE Au2**

### **Overview of the Auditing and Assurance Standard Setting Process**

This Explanatory Guide outlines the due process that is followed by the New Zealand Auditing and Assurance Standards Board (NZAuASB), a sub-Board of the External Reporting Board (XRB), in developing and issuing auditing and assurance standards.

This Explanatory Guide is an explanatory document and has no legal status.

This Explanatory Guide has updated to reflect amendments made to the Financial Reporting Act 2013, to include standards for related services within the mandate of the External Reporting Board.

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## EXPLANATORY GUIDE Au2

## OVERVIEW OF THE AUDITING AND ASSURANCE STANDARD SETTING PROCESS

*Issued by the External Reporting Board*

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## Introduction

1. The External Reporting Board (XRB) is an independent Crown Entity with continued existence under section 11 of the Financial Reporting Act 2013, and is subject to the provisions of the Crown Entities Act 2004. The XRB is responsible for:
  - (a) developing a financial reporting strategy;
  - (b) developing and issuing accounting standards and authoritative notices<sup>1</sup>;
  - (c) developing and issuing auditing and assurance standards (including professional and ethical standards and standards for related services);
  - (d) liaising with similar international or national organisations.
2. In this Explanatory Guide the organisation is referred to as the XRB and the governance group is referred to as the XRB Board.

## Roles of the XRB and the NZAuASB

3. The XRB Board has established a sub-board, the New Zealand Auditing and Assurance Standards Board (NZAuASB). The NZAuASB is responsible for developing and issuing auditing and assurance standards. The NZAuASB operates under delegated authority from the XRB Board.
4. Although responsibility for setting auditing and assurance standards has been delegated to the NZAuASB, the XRB Board is responsible for ensuring that appropriate due process occurs in the promulgation of standards. Due process is an essential part of an effective standard setting process, and is also a statutory obligation. The XRB Board considers due process to be important to achieving the XRB's outcome goal of *the establishment of an accounting and assurance standards that engender confidence in*

<sup>1</sup> Under section 12 (c) of the Financial Reporting Act 2013, "authoritative notices" may be issued by the XRB Board for the purposes of the definition of generally accepted accounting practice.

*New Zealand financial reporting, assist entities to compete internationally and enhance entities' accountability to stakeholders.*

5. The XRB Board has established a minimum set of due process requirements to be followed by the NZAuASB in carrying out its responsibilities. Those requirements are outlined in this Explanatory Guide. This Explanatory Guide has been published so that the standard setting process is clear and transparent to constituents and to indicate where constituents may contribute to the process.

## The NZAuASB Standard Setting Process

### The standard setting environment

6. In broad terms the NZAuASB issues two types of standards:
  - (a) standards based on international standards developed and issued by two international standards-setting bodies, the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC); and
  - (b) domestic standards.
7. The XRB Board supports the adoption of international standards where they are applicable. The majority of current auditing and assurance standards are based on the international equivalent. Accordingly, a significant part of the work of the NZAuASB is to continue to develop New Zealand standards based on international standards, including any amendments thereto.
8. In developing New Zealand standards that are based on international standards, the NZAuASB takes into account the due process followed by the IAASB and the IESBA – these are described in *IFAC's Standards-setting Public Interest Activity Committees' Due Process and Working Procedures – March 2010*.<sup>2</sup>
9. In addition, the XRB Board is strongly committed to harmonising New Zealand and Australian auditing and assurance standards. This harmonisation work also impacts on the process followed in developing and adopting auditing and assurance standards.
10. The NZAuASB uses one of two different processes to develop and issue standards. The specific process applied depends on the type of standard, its source and relevant circumstances. The two processes set out in this Explanatory Guide and the standards that they relate to are summarised in the following table:

Process	Type of standard
Process 1 – Process for standards based on international standards	<ul style="list-style-type: none"> <li>• International Standards on Auditing (New Zealand) (ISAs (NZ))</li> <li>• International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ))</li> <li>• International Standards on Review Engagements (New Zealand) (ISREs (NZ))</li> <li>• International Standards on Related Services (New Zealand)</li> <li>• Professional and Ethical Standards</li> </ul>

<sup>2</sup> Available at [http://web.ifac.org/download/PIAC-Due\\_Process\\_and\\_Working\\_Procedures.pdf](http://web.ifac.org/download/PIAC-Due_Process_and_Working_Procedures.pdf)

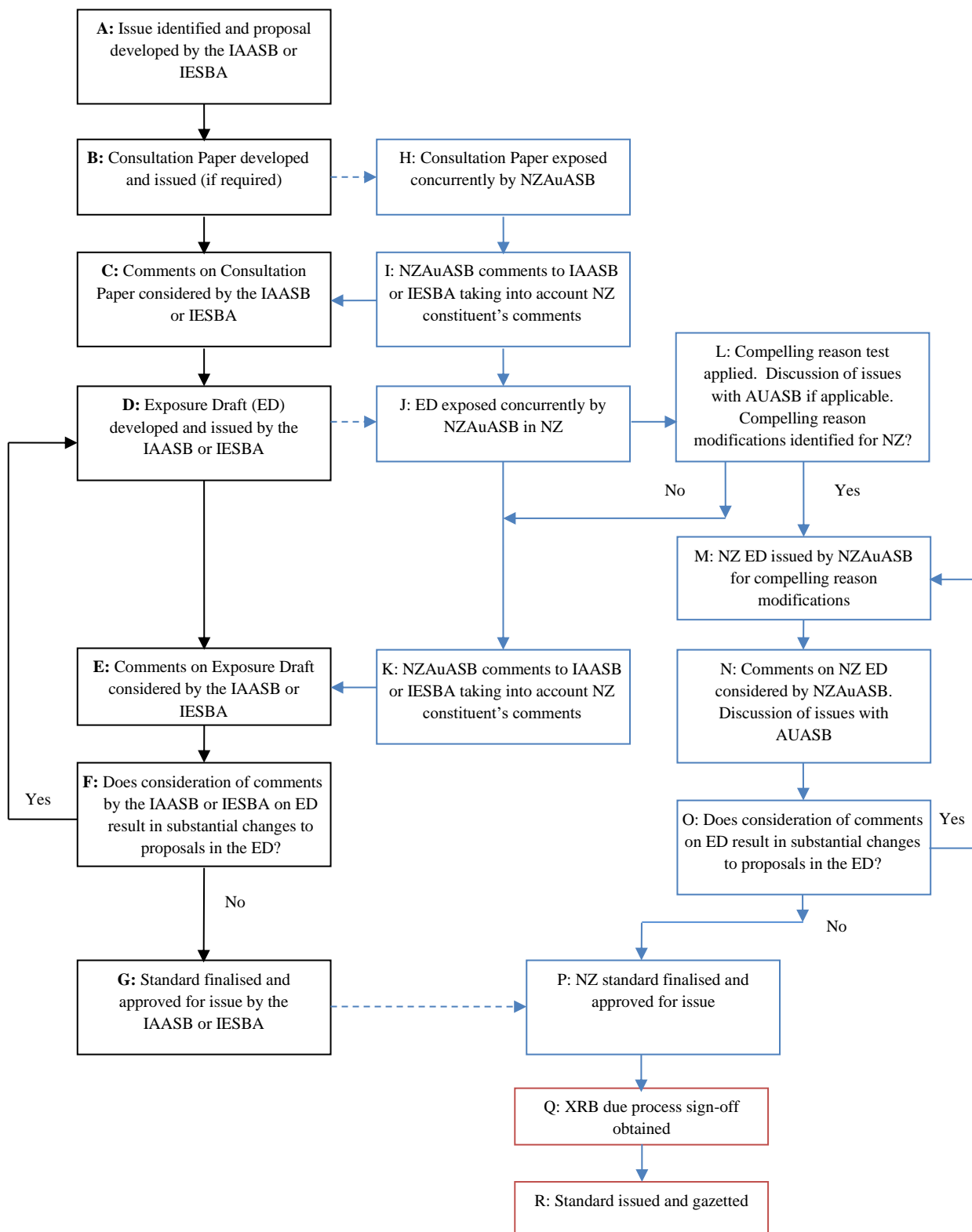
	(PESs)
Process 2 – Process for domestic standards	<ul style="list-style-type: none"> <li>• New Zealand Standard on Auditing (NZ AS)</li> <li>• New Zealand Standard on Review Engagements (NZ SRE)</li> <li>• Standard on Assurance Engagements (SAEs)</li> </ul>

11. The NZAuASB occasionally issues other documents, such as explanatory guides. These are usually issued without formal public consultation because they contain explanatory material, have no legal status and are not mandatory.
12. In addition to the due process followed by the NZAuASB in developing and issuing standards, transparency of the NZAuASB's standard setting role is enhanced by the technical sessions of the NZAuASB meetings being open to the public. Furthermore, NZAuASB agenda papers are available on the XRB's website prior to a meeting, and minutes of meetings are available once they have been approved.

### **Process 1: Process for standards based on international standards**

13. The process the NZAuASB follows for developing auditing and assurance standards based on international standards issued by the IAASB or IESBA is set out in Figure 1. Figure 1 should be read in conjunction with the commentary on Process 1. The steps in the commentary refer to the steps in Figure 1.

**Figure 1: Process for standards based on international standards**



### International Due Process: Steps A-G

14. The XRB Board is committed to adopting international auditing and assurance standards. The New Zealand auditing and assurance standards are based on the international standards and are in most cases substantively identical to the international standards on which they are based. This approach is consistent with the XRB Board's strategy of adopting international standards where it is appropriate to do so. The XRB Board recognises that in doing so it is committing to using the set of International Standards on Auditing as a whole. This means

that the failure to adopt any particular standard would remove the ability of assurance practitioners in New Zealand to assert compliance with those standards.

15. The process the NZAuASB follows in developing auditing and assurance standards based on international standards issued by the IAASB or IESBA is aligned with IFAC's international due process for issuing international auditing and assurance standards. Steps A-G in Figure 1 represent IFAC's international process followed by the IAASB and the IESBA. While this international due process is a critical aspect of the overall standard setting process in New Zealand and is relied on by the NZAuASB, Process 1 focusses on the steps the NZAuASB takes when issuing auditing and assurance standards based on IAASB or IESBA standards.
16. The XRB Board and the NZAuASB consider that commenting on IAASB and IESBA documents as well as contributing to the development of those documents, where appropriate, is important to support the work of the IAASB and the IESBA and to ensure that the standard issued internationally (and subsequently adopted in New Zealand) is appropriate for New Zealand standards. International standards per se are not issued in New Zealand. Accordingly, the NZAuASB's involvement in the process of issuing international standards ceases when the exposure draft submission process is completed.

#### **New Zealand Parallel Due Process: Steps H-K**

17. When the IAASB or IESBA issues a document (such as an exposure draft or consultation paper), the NZAuASB notifies interested parties that the document has been issued and is available to comment on in New Zealand. Where appropriate, the IAASB, IESBA or the NZAuASB arranges forums to enable discussion and exchanges of opinion on the document.
18. Constituents' comments will generally be sought on:
  - (a) the proposals set out in the international exposure draft or discussion document;
  - (b) any regulatory issues or other factors specific to the New Zealand economic and legal environment that could affect implementation of the proposals; and
  - (c) whether there are any compelling reasons for the proposals to be modified for application in New Zealand (refer to steps L-O).
19. The IAASB's international due process comment period varies depending on the complexity of the topic, but is ordinarily 120 days<sup>3</sup>. The IESBA's exposure period is ordinarily not shorter than 90 days. Proposed changes that result in only minor amendment to an issued international standard may be progressed more quickly.
20. Anyone can send comments to the IAASB or the IESBA on their documents. As the national standard setter, the NZAuASB sends comments to the IAASB or IESBA if it considers it appropriate to do so. Constituents can comment directly to the IAASB, IESBA or to the NZAuASB. If comments are made directly to the IAASB or IESBA, the NZAuASB appreciates receiving a copy so it can take these comments into account when developing its own comments to those Boards. Unless a constituent requests otherwise, their comments are included on the XRB's website. However, all comments the NZAuASB receives remain subject to the Official Information Act 1982 and the Privacy Act 1993.

#### **New Zealand Separate Due Process: Steps L-O**

21. If an international standard is adopted without substantive change in New Zealand, the NZAuASB proceeds to issue the New Zealand standard once it has been issued

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<sup>3</sup> The concurrent comment period in New Zealand is usually marginally shorter to enable the NZAuASB to receive comments from New Zealand constituents before making its own submission to the IAASB or the IESBA.



internationally.

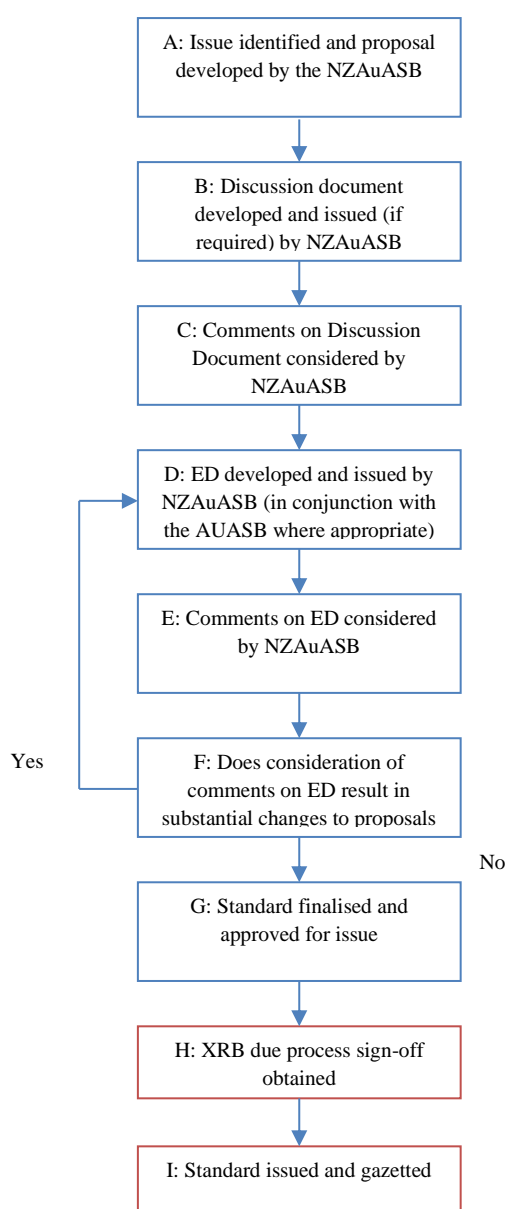
22. The XRB Board recognises that the NZAuASB may consider modifying international standards for application in New Zealand where there are compelling reasons to do so. The XRB Board considers such modifications acceptable provided that they consider the public interest, and do not conflict with or result in lesser requirements than the international standards.
23. If the NZAuASB considers that modifications to an international auditing or assurance standard is required in developing it as a New Zealand standard (that is where compelling reasons modifications are identified for New Zealand), there will be a separate due process for that New Zealand modification. Ideally, the separate due process will be around the same time as the international due process, with the proposed New Zealand modifications clearly highlighted. New Zealand standards based on international standards that contain modifications from international standards will clearly identify the modification.
24. The XRB Board is also committed to harmonising New Zealand and Australian auditing and assurance standards. Australia has also adopted standards based on international standards. The AUASB has a parallel policy of convergence with international standards issued by the IAASB. The NZAuASB works with the Australian Auditing and Assurance Standards Board (AUASB) towards harmonised standards based on international standards. Therefore, in most cases harmonisation will follow as the result of the respective policies of converging with international standards.

### **Finalisation: Steps P-R**

25. Once the international standard has been issued, or the New Zealand modifications are finalised for approval, the NZAuASB finalises the New Zealand standard and approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB's approvals and legislative process**). Where appropriate, the NZAuASB may issue an "Explanation for Decisions Made" setting out the main matters raised by constituents, and the decisions made by the NZAuASB when finalising the standard.

### **Process 2: Process for Domestic Standards**

26. The process the NZAuASB follows for developing domestic standards is set out in Figure 2. Figure 2 should be read in conjunction with the commentary on Process 2. The steps in the commentary refer to the steps in Figure 2.

**Figure 2: Process for Domestic Standards****Steps A-F**

27. Domestic standards may be developed to address matters specific to New Zealand, or which are important to New Zealand, but which are not addressed by international auditing and assurance standards.
28. The development of a New Zealand standard is harmonised with any equivalent Australian standard, where applicable. Differences may arise where different regulatory requirements apply or different practices are considered appropriate.
29. In developing domestic standards, constituents' views are sought on the need for, and content of, any requirements. For some projects, the NZAuASB may issue a discussion document identifying matters that the NZAuASB is considering and options for those matters.
30. For all proposed standards, the NZAuASB prepares an exposure draft and accompanying explanatory material that highlights the reason for its development.
31. Interested parties are notified of the issue of all discussion documents and exposure drafts.

Where appropriate, forums are arranged or other arrangements made to enable further discussion and exchanges of opinion.

32. The comment period can vary depending on the complexity of the topic, but is typically 90 days. Shorter comment periods are used only for urgent or minor matters and will never be less than 30 days.
33. Constituents' comments will generally be sought on the proposed requirements and the need for any further additional requirements. Constituents' comments are taken into account when finalising the domestic standard. Unless a constituent requests otherwise, their comments are included on the XRB's website. However, comments the NZAuASB receives are subject to the Official Information Act 1982 and the Privacy Act 1993.

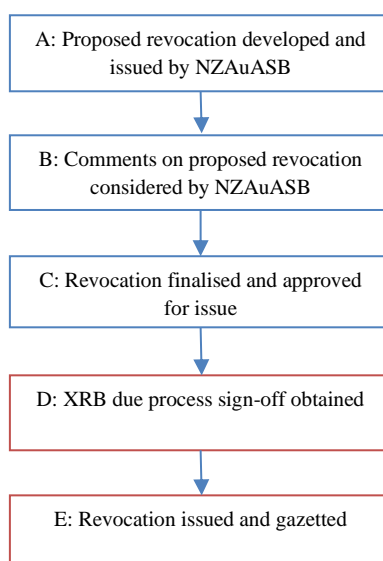
### Steps G-I

34. Following the comment period, and the consideration of the comments by the NZAuASB, the NZAuASB finalises the standard and approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB's approvals and legislative process**). Where appropriate, the NZAuASB may issue an "Explanation for Decisions Made" setting out the main matters raised by constituents, and the decisions made by the NZAuASB when finalising the standard.

### Process for revocations of standards

35. The process the NZAuASB follows for revoking standards is set out in Figure 3.

*Figure 3: Process for revocations of standards and authoritative notices*



### Steps A-B

36. The Financial Reporting Act 2013 requires that the due process applying to the issue of standards also applies to their revocation<sup>4</sup>. Before the NZAuASB revokes a standard, it must ensure that people or organisations likely to be affected have been adequately consulted.
37. The NZAuASB develops and issues the proposed revocation, including the reason for the

<sup>4</sup> It should be noted that a standard may be superseded when it is replaced with another standard. A separate consultation process is not undertaken for the superseded standard as its proposed supersedence is included in the consultation process for the proposed replacement standard.

revocation. Interested parties are notified of the issue of the proposed revocation. The comment period for the proposed revocation is typically 90 days.

38. Constituents' comments are generally sought on the proposed revocation, and those comments are taken into account when finalising the revocation. Unless a constituent requests otherwise, their comments are included on the XRB's website. However, all comments the NZAuASB receives are subject to the Official Information Act 1982 and the Privacy Act 1993.

### Steps C-E

39. Following the comment period, and the NZAuASB considering the comments, the NZAuASB finalises the revocation and approves it for issue in accordance with the XRB's approval process and with the legislative process set out in the Financial Reporting Act 2013 (see section on **XRB's approvals and legislative process**). Where appropriate, the NZAuASB may issue an "Explanation for Decisions Made" document setting out the main matters raised by constituents, and the decisions made by the NZAuASB when finalising the revocation.

### XRB approvals and legislative process

40. Before approving a standard, amendment or revocation for issue the NZAuASB needs to satisfy itself that reasonable steps have been taken to consult with people or organisations likely to be affected by their content.
41. The NZAuASB is required<sup>5</sup> to obtain a certificate signed by a member of the XRB Board (usually the Chair of the XRB), authorising the issue of the standard, amendment or revocation.
42. Before signing a certificate, the member of the XRB Board checks that the standard, amendment or revocation is consistent with the XRB's financial reporting strategy, that due process has been followed, and that matters raised by constituents have been adequately considered. In the case of a standard that is based on an international standard, this includes ensuring that the applicable international due process has been followed. This reflects the XRB Board's interest in ensuring due process is followed.
43. Following the signing of the certificate the NZAuASB formally issues the standard, amendment or revocation by public notification in the Gazette<sup>6</sup>, and sends a communiqué to interested parties.
44. In accordance with the provisions of the Financial Reporting Act 2013, all standards, amendments and revocations issued are subject to the Legislation Act 2012. This means that these standards are treated as disallowable instruments and must be presented to Parliament within 16 sitting days of the standard being gazetted<sup>7</sup>. Sections 42 and 43 of the Legislation Act 2012 set out the manner in which a disallowable instrument (or provisions of a disallowable instrument) may be disallowed.
45. A standard, amendment or revocation takes effect on the 28<sup>th</sup> day after the date of its public notification in the Gazette. However, any of those documents may be treated as taking effect on its notification in the Gazette if the NZAuASB considers it necessary or desirable to do so<sup>8</sup>.
46. The requirements of existing standards that are affected by a new standard, amendment

<sup>5</sup> As required by section 26 of the Financial Reporting Act 2013.

<sup>6</sup> As required by section 24 of the Financial Reporting Act 2013.

<sup>7</sup> See section 25 of the Financial Reporting Act 2013.

<sup>8</sup> See section 27(2) of the Financial Reporting Act 2013.

or revocation remain in force until the mandatory application date of the new standard. Subject to the requirements of the standard, a new or revised or amended standard may be applied in advance of its mandatory application date.

## NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 8.1

**Meeting date:** 2 December 2021

**Subject:** Inflationary adjustments

**Date:** 15 November 2021

**Prepared By:** Lisa Thomas

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Action Required

For Information Purposes Only

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### **Background**

1. The Government recently updated various legislative size thresholds which determine financial reporting and assurance requirements through the issuance of [Financial Reporting \(Inflation Adjustments\) Regulations 2021](#).
2. The new regulations come into force on 1 January 2022. Below is a table summarising the audit and review changes.

<b>Amendments to Charities Act 2005 (section 42D)</b>	<b>Current</b>	<b>Inflation Adjusted</b>
Definition of “large” for setting mandatory audit requirements for registered charities	\$1 million total operating expenditure	\$1.1 million total operating expenditure
Definition of “medium” for setting mandatory review requirements for registered charities	\$500,000 total operating expenditure	\$550,000 total operating expenditure
<b>Friendly Societies and Credit Unions Act 1982</b>		
Section 64 permits certain registered societies or branches with operating expenditure below a certain amount to opt out of compliance with section 63	\$30 million total operating expenditure	\$33 million total operating expenditure
<b>Friendly Societies and Credit Unions Act 1982/Financial Reporting Act 2013</b>		

Definition of specified not for profit entity	\$125,000 total operating expenditure	\$140,000 total operating expenditure
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**Matters to Consider**

- Staff have reviewed the standards, explanatory guides and other material on the XRB website to identify if and where amendments are required to reflect these changes. We have identified and have made the following editorial corrections:
- Explanatory guide EG Au9 Guidance on the Audit and Review of the Performance Report of Tier 3 Not for Profit Public Benefit Entities

**Page 7/8:**

	<b>XRB NFP PBEs reporting criteria</b>	<b>Statutory audit or review requirements</b>
<b>Tier 1</b>	<ul style="list-style-type: none"> <li>Public Benefit Entity Standards</li> <li>Over \$30 million annual expenses</li> <li>Or has public accountability</li> </ul>	<p><i>The following Tier 1 reporting entities are required to have an audit:</i></p> <ul style="list-style-type: none"> <li>Large registered charity</li> <li>Large Not-For-Profit Friendly Society</li> <li>Large Not-For Profit Maori Incorporation</li> </ul>
<b>Tier 2</b>	<ul style="list-style-type: none"> <li>Public Benefit Entity Standards Reduced Disclosure Regime</li> <li>Under \$30 million annual expenses</li> <li>Without public accountability</li> </ul>	<p><i>The following Tier 2 reporting entities are required to have an audit:</i></p> <ul style="list-style-type: none"> <li>Large registered charity</li> <li>Large Not-For-Profit Friendly Society</li> <li>Large Not-For Profit Maori Incorporation</li> </ul>
<b>Tier 3</b>	<ul style="list-style-type: none"> <li>Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)</li> <li>Under \$2m annual expenses</li> <li>Without public accountability</li> </ul>	<p><i>The following Tier 3 reporting entities are required to have an audit:</i></p> <ul style="list-style-type: none"> <li>Registered charity with expenses greater than <del>\$1m</del> <b>\$1.1m</b></li> <li>Not-For-Profit Friendly Society with operating expenses greater than <del>\$125k</del> <b>\$140k</b></li> </ul>

		<ul style="list-style-type: none"> <li>• Not For Profit Maori Incorporation with operating expenses greater than \$125k<sup>1</sup></li> </ul> <p>Registered charity with expenses between \$500k \$550k and \$1m – \$1.1m can choose to have an audit or a review</p> <p>Registered charity with expenses less than \$500k \$550k has no statutory audit or review requirement.</p>
<b>Tier 4</b>	<ul style="list-style-type: none"> <li>• Public Benefit Entity Simple Format Reporting – Cash (Not-For-Profit)</li> <li>• Under \$125k annual operating expenses</li> <li>• Without public accountability</li> </ul>	No statutory audit or review required

Website publication A guide for funding organisations:

**Page 6:**

**“Which NFPs must have their financial statements audited?”**

- All registered charities with annual expenditure over \$1m \$1.1m
- Not-for-profit friendly societies with annual expenditure over \$30m \$33m
- Not-for-profit friendly societies with annual expenditure less than \$30m \$33m (unless they opt out of preparing financial statements, or operating payments are less than \$125,000 \$140,000 and the entity’s rules don’t require an audit)
- Community trusts under the Community Trust Act 1999
- Corporate societies under the Gambling Act 2003”

**Page 7:**

**“Which NFPs require a review of their financial statements?”**

All registered charities with annual expenditure less than \$1m \$1.1m but more than \$500k \$550k are required to have a review of their financial statements at a minimum. These entities can opt up to an audit if they choose to do so.”

5. The number of amendments is low as specifying threshold amounts in drafting of standards is generally avoided due to the scenario we are currently facing.

<sup>1</sup> Repealed on 12 May 2017 section 23 of the Maori Purposes Act 2017



6. The revised documents, including the editorial corrections, will be reloaded following the December Board meeting and an alert will be issued to notify stakeholders of the adjustments that have been made.

**Recommendation**

We recommend that the Board:

- a) NOTE editorial corrections to EG Au9 and *A guide for funding organisations*

**Material Presented**

Agenda item

Board Meeting Summary Paper

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	9.1
<b>Meeting date:</b>	2 December 2021
<b>Subject:</b>	Convergence and harmonisation policy
<b>Date:</b>	5 November 2021
<b>Prepared By:</b>	Vivian Teh

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 **Action Required**
 **For Information Purposes Only**


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### **Agenda Item Objectives**

1. For the Board to NOTE the updated Policy and Process for International Conformance and Harmonisation of Standards.

### **Background**

2. NZAuASB and AUASB agreed to update the extant convergence and harmonisation policy to streamline and combine the communication protocol in a single document.
3. The policy has been enhanced to clarify the requirements and considerations of the compelling reason test and the addition of a statement of principles of harmonisation drawing off the 2009 [Joint Statement of Intent: Single Economic Market Outcomes](#) signed by the Prime Ministers of Australia and New Zealand.
4. At its December 2020 meeting, the NZAuASB considered a modified compelling reason and harmonisation policy, as updated by the AUASB. The Board resolved to adopt the policy subject to further changes to be signed off by the Chair and Deputy Chair following further consideration by the AUASB.
5. NZAuASB Chairman and Deputy Chairman, Robert Buchanan and John Kensington have reviewed the updated policy document, and provided further input to enhance the flowcharts included in the appendix. The final changes have also been considered by the AUASB. The XRB Board endorsed the updated policy document during its October 2021 XRB meeting.
6. The updated *Policy and Process for International Conformance and Harmonisation of Standards* is attached as agenda item 9.2 and have also been included on XRB's website.

### **Recommendations**

7. We recommend that the Board NOTE the updated policy document.

### **Material Presented**

Agenda item 9.1	Board Meeting Summary Paper
Agenda item 9.2	Policy document



*Te Kāwai Ārahi Pūrongo Mōwaho*  
**EXTERNAL REPORTING BOARD**

**October 2021**

# **NZAuASB Policy and Process for International Conformance and Harmonisation of Standards**

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# NZAuASB Policy and Process for International Conformance and Harmonisation of Standards

## PART A - INTRODUCTION

### Application Date

1. The policies detailed in this paper apply from 21 October 2021.
2. The Financial Reporting Act 2013 requires the External Reporting Board (XRB) to prepare and issue auditing and assurance standards, including the professional and ethical standards that govern the professional conduct of auditors, and standard for related services<sup>1</sup>. The NZAuASB has delegated authority from the XRB Board to develop or adopt and issue these auditing and assurance standards in the public interest<sup>2</sup> in New Zealand. All of these standards have legal status under the Financial Reporting Act 2013.

### Objectives

3. The key strategic objectives set by the XRB Board for the NZAuASB include:
  - to adopt international auditing and assurance standards, including the professional and ethical standards for assurance practitioners, and standards for related services<sup>1</sup>, in New Zealand unless modifications are considered to be in the public interest and these do not conflict with, or result in lesser requirements to, the international standards (which the Board describes as “compelling reasons”); and
  - to work with the Australian Auditing and Assurance Board (AUASB) towards the establishment of harmonised standards based on international standards.
4. A key aspect of the NZAuASB’s strategic objectives is the convergence of international and local standards. Implicit in this approach is the need for the NZAuASB to mostly be a “standards-taker”, i.e., to use the international standards as a base for New Zealand standards. For those standards to be appropriate in New Zealand, the NZAuASB seeks to influence international standards<sup>3</sup> during the various stages of standards development to ensure high quality global standards that are both applicable in New Zealand and considered to be in the public interest.

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<sup>1</sup> Agreed upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

<sup>2</sup> The New Zealand standard’s responsiveness to the public interest in New Zealand to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1.

<sup>3</sup> Refer to the [Overview of the Auditing and Assurance Standard Setting Process](#).

### **Purpose of this paper**

5. The purpose of this paper is to set out the principles of convergence to international standards and harmonisation with Australian standards. The Board will use this as the framework for the standard setting process of the NZAuASB.
6. It is expected that this paper will be revised from time to time to take account of changes to the XRB's reporting and assurance environment.

### **PART B – MODIFICATIONS FROM INTERNATIONAL STANDARDS (“THE COMPELLING REASON TEST”)**

#### **Principles of Convergence to International Standards**

7. The XRB Board recognises that the NZAuASB may consider modifying international standards for application in New Zealand under either of the objectives of this policy. The XRB Board considers such modifications acceptable provided they consider the public interest, and do not conflict with or result in lesser requirements than the international standards.

#### ***Context***

8. For the purposes of this policy:
  - (a) Factors the NZAuASB should consider when assessing whether modifications to the international standards are considered to be in the public interest are described in Appendix 1.
  - (b) The test to determine whether modifications do not conflict with or result in lesser requirements than the international standards is described in paragraphs 12 to 14 below.
  - (c) The international standards should be adopted and only be modified if there are compelling reasons to do so. This ‘Compelling Reasons Test’ is described in paragraphs 12 to 14 below.
9. The [IAASB Policy Position, \*Modifications to International Standards of the IAASB-A Guide for National Standard Setters that Adopt IAASB’s International Standards but Find it necessary to Make Limited Modifications \(July 2006\)\*](#) sets out the policy that National Standard Setters must comply with to assert compliance with the international standards when making modifications.
10. The principles of convergence set out in this paper adhere to the principles set out in the IAASB’s Policy Position. This enables the NZAuASB to assert compliance with the international standards when making modifications.

## ***Policy***

11. Any modifications the NZAuASB make to an international standard must comply with the IAASB's Policy Position (as described in Paragraph 9) and the strategic objectives of the XRB Board (referred to previously in Paragraph 3). Accordingly:
- (a) Additions to an international standard are limited to addressing:
    - (i) National legal and regulatory requirements.
    - (ii) Other requirements or guidance that are not lesser or in conflict with the current requirements or guidance in the international standard.

NB: Any additions made under paragraph 11(a)(ii) are to be communicated to the IAASB/IESBA for future consideration.

- (b) Deletions from, or other modifications to, an international standard are limited to:
  - (i) The elimination of options or alternatives provided for in the international standard.
  - (ii) Requirements or application guidance which law or regulation does not permit, or which needs to be modified to be consistent with law or regulation.
  - (iii) Requirements or application guidance where the international standard recognises that different practices may apply in different jurisdictions and this is the case for New Zealand.

NB: Before deleting a requirement under paragraph 11(b)(ii) or (iii), the NZAuASB will consider whether the objective of the deleted requirement could be met by replacing it with an appropriate alternative.

## **Modifications of International Standards (“The Compelling Reason Test”)**

12. In the case of an international standard that is being reviewed for the purpose of adoption in New Zealand, the compelling reason test for modifications is triggered when the international standard does not reflect, or is not consistent with:
- (a) New Zealand legal and regulatory arrangements; or
  - (b) principles and practices that are appropriate having regard to the public interest<sup>4</sup> in New Zealand (including in the use of different terminology).
13. Where paragraph 12(a) applies, any new or modified requirement will:
- (a) ensure effective and efficient compliance with the legal and/or regulatory framework in New Zealand; and
  - (b) not result in a requirement that is lesser than or in conflict with the international standard.

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<sup>4</sup> The New Zealand standard's responsiveness to the public interest in New Zealand to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1.

14. Where paragraph 12(b) applies, any modification to the standard must:
  - (a) ensure compliance with principles and practices that the NZAuASB considers appropriate and in the public interest<sup>5</sup> in New Zealand; and
  - (b) be clear and promote consistent application by all practitioners in New Zealand; and
  - (c) promote significant improvement in audit/assurance quality (as described by the IAASB's Framework for Audit Quality) in the New Zealand environment; and
  - (d) not result in a standard that conflicts with, or results in lesser requirements than the international standard; and
  - (e) not be overly complex and confusing; and
  - (f) not change the meaning or intent of the international standard by imposing more onerous requirements on practitioners in New Zealand than are necessary.
15. Before making any modification under paragraph 13 or paragraph 14, the NZAuASB will consider whether, and be satisfied that, the benefits of modifying the standard outweigh the costs (with cost primarily being the compliance cost associated from differences to the international standards).
16. Any deletion from the international standards will be clearly noted, and any addition will be clearly marked as a New Zealand paragraph. However, minor wording and spelling changes (as opposed to changes reflecting the use of significant terminology) need not be reflected in the New Zealand standard as a modification to the international standard where the intent remains unchanged.

## **PART C – HARMONISATION OF AUSTRALIAN AND NEW ZEALAND STANDARDS**

### **Principles of Harmonisation**

17. The joint objective of the NZAuASB and AUASB is to achieve a harmonised set of assurance standards between New Zealand and Australia, based on international standards. This co-operation contributes to the outcome framework of the Single Economic Market which was established by the New Zealand and Australian Prime Ministers in 2009. The aim of the framework is to enable businesses, consumers, and investors to conduct operations across the Tasman in a seamless regulatory environment.

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<sup>5</sup> The standard's responsiveness to the public interest to be assessed with reference to the qualitative characteristics in the Public Interest Framework



18. The approach to harmonisation set out in this paper acknowledges the principles that:
- (a) Regulatory harmonisation requires a flexible approach that takes account of both the benefits and costs of a particular solution.
  - (b) Achieving harmonisation in relation to the Australian and New Zealand assurance standards benefits from a collaborative approach to the adoption of the standards (whether based on an international or NZAuASB developed standard) in the respective jurisdictions, based on a common set of principles (in particular, the compelling reason test).
  - (c) In seeking harmonisation, the standards should be consistent or compatible to the extent that they do not result in barriers for users of the standards in the Trans-Tasman environment.
  - (d) A recognition that each of the Boards act autonomously and independently and there may be instances where standards may differ because of country specific requirements and public interest considerations in each jurisdiction.
19. Compelling reasons for differences between New Zealand and Australian standards are where:
- (a) different legal and regulatory requirements apply; and/or
  - (b) different principles and practices are appropriate having regard to the public interest<sup>6</sup> in New Zealand (including in the use of different terminology).

### **Process for harmonisation with Australian standards**

20. The NZAuASB will take the principles of harmonisation into account when it applies the compelling reason test (in paragraphs 12-14) in any case where either the NZAuASB or the AUASB has modified, or intends to modify, an international standard.
21. Where there is an existing equivalent Australian standard or a new or revised Australian standard, the development of a New Zealand standard can meet the principles of harmonisation with the equivalent Australian standard by:
- (a) using the equivalent Australian standard as a starting point; and
  - (b) liaising with the AUASB on any intended differences between the proposed New Zealand standard and the equivalent Australian standard; and
  - (c) applying the same approach to harmonisation as for the modification of an international standard.

When the AUASB decides to revise an existing equivalent Australian standard there is no obligation for the NZAuASB to also revise that standard.

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<sup>6</sup> The New Zealand standard's responsiveness to the public interest in New Zealand to be assessed with reference to the qualitative characteristics in the Public Interest Framework set out in Appendix 1.

22. The principles of convergence to the IAASB and IESBA standards is set out in a flowchart in Appendix 2 to this document.

## **PART D - AUASB AND NZAuASB COMMUNICATION PROTOCOLS IN STANDARD SETTING**

23. The following protocols between the AUASB and the NZAuASB apply to ensure a joint consideration of compelling reason modifications and harmonisation during the two boards' standard setting processes.

### **Overall principles**

24. The overall principles are that there should be sufficient appropriate communication, dialogue and sharing of information and the position or decisions of each Board, throughout each stage of the process to develop auditing and assurance standards, in order to:
- reduce the risk of unintended differences in the final auditing and assurance standards approved by each Board; and
  - enhance the individual and collective understanding of each Board and the effective application of the compelling reason test in each jurisdiction; and
  - enhance the quality and robustness of each Board's debate and consideration of issues relevant to the development and promulgation of auditing and assurance standards through the sharing of views and discussions of each Board on a particular matter; and
  - facilitate, or enhance, the accountability that each Board has back to their respective Governments for the contribution to, or delivery on, the Trans-Tasman outcomes framework, in particular, enhancing the ability for auditors in one jurisdiction to operate in the other jurisdiction through the effective harmonisation of auditing and assurance standards.

### **Sharing of information**

25. Communication on the known possible compelling reason modifications in either of the two jurisdictions occurs during the due process of each Board. To mitigate or reduce the risk of unintended differences in the two jurisdictions, the points in the standard setting process for sharing of information are:
- (a) When the IAASB ED is released for exposure internationally (for any issues identified at this stage).
  - (b) At the close of the comment period for the international ED, and before finalising the submissions by each Board to the IAASB.
  - (c) As soon as the IAASB standard is finalised.
26. As a matter of course staff inform their respective Board of any possible emerging differences/issues throughout the process by liaising with staff from the other Board.

### **Content of the communication**

27. Each Board communicates to the other Board any public interest issues identified with a proposed international standard, and the proposed compelling reason modifications.
28. The content of the communication will depend on the stage reached in the due process of each Board. The communication is to include as much of the following matters that are known at each communication point:
  - (a) The reason why it is a public interest issue in the particular jurisdiction; and
  - (b) The proposed modification to the international standard; and
  - (c) The rationale as to why the Board considers it to be a compelling reason modification, with reference to the AUASB and NZAuASB's agreed principles on convergence and harmonisation; and
  - (d) A request to the other Board for its view on whether:
    - it is also a public interest issue in its jurisdiction; and
    - the proposed modification meets the compelling reason test in its jurisdiction.

### **Form/manner of the communication**

29. The form of the communication could be one of the following, or a combination thereof:
  - (a) Verbal feedback from the respective Chair of the other Board;
  - (b) Staff papers prepared based on feedback from staff from the other Board;
  - (c) Board meeting papers of the other Board.

### **Resolving differences**

30. Where the two Boards have different views about public interest matters identified and/or the compelling reasons for modifications, the Boards jointly consider, debate and, where possible, resolve any differences as early as practically possible in the standards development process. The appropriate process for this joint consideration is agreed by the two Boards on a case by case basis, and could be one of the following (under direction by each Board):
  - A joint Board meeting.
  - Establishment of a joint AUASB/NZAuASB subcommittee by the Chairs to address any differences.
  - Consideration of joint staff papers at each of the subsequent Board meetings.
  - Consideration by Chairs and Technical Staff only.
  - Consideration by Chairs only.

31. Where the two Boards reach different conclusions after the joint consideration of their different views on compelling reason modifications, the rationale for the different conclusions are clearly documented and communicated to the audit market in both jurisdictions.

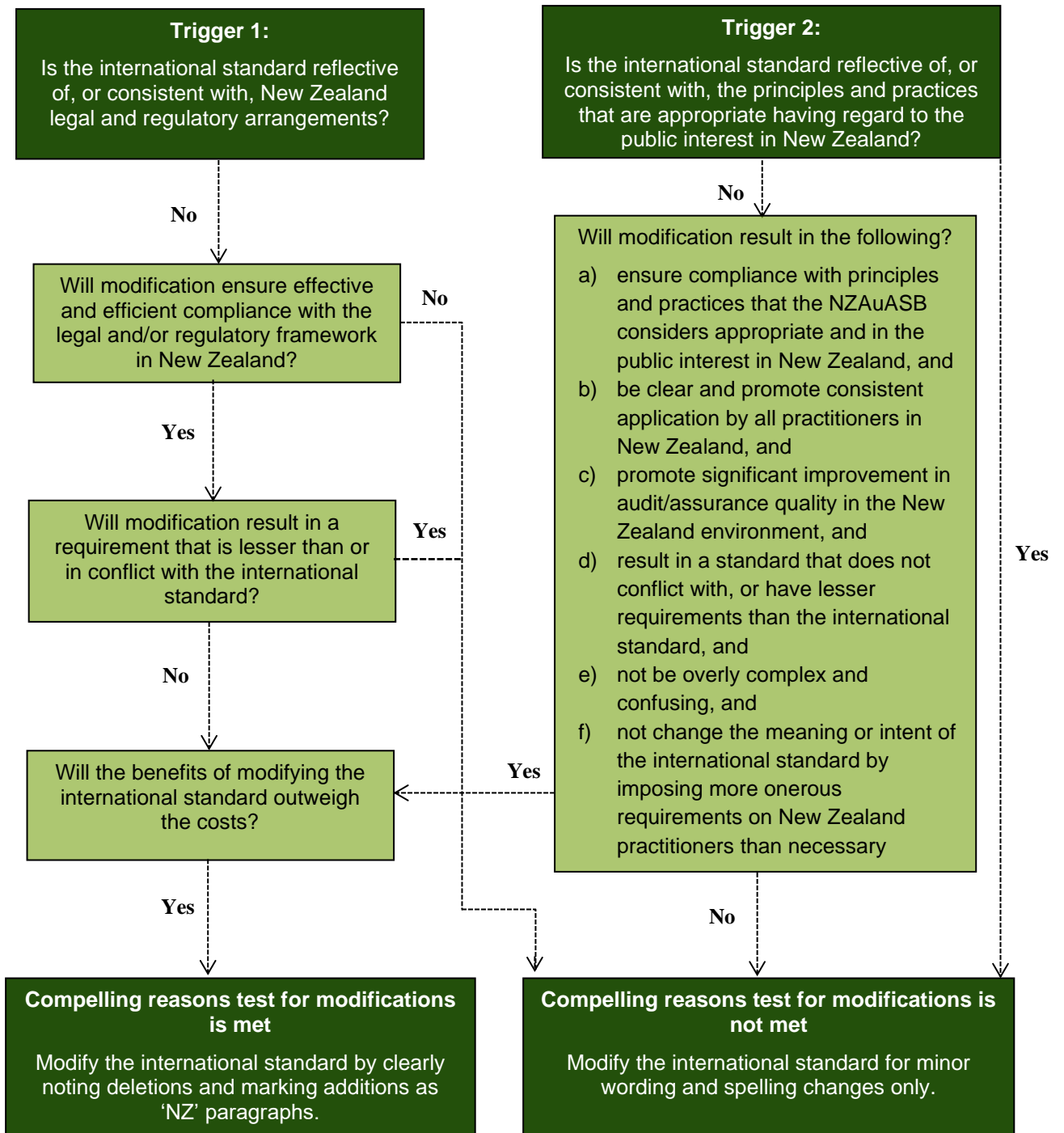
## APPENDIX 1 - Consideration of Public Interest

1. The Monitoring Group<sup>7</sup> issued its report *Strengthening the International Audit and Ethics Standards Setting System* in July 2020 to address the need for more independent audit standard setting, with a key focus on the public interest. The “Public Interest” has not been defined but a Public Interest Framework (PIF) has been developed under which international audit related standard setting activities will be undertaken.
2. The characteristics in the PIF provide a useful frame of reference for the NZAuASB to assess whether modifications to the international standards for application in New Zealand appropriately consider the public interest (in the context of New Zealand).
3. The PIF sets out the following qualitative characteristics to be used to assess the international standards responsiveness to the public interest, including but not limited to:
  - (a) Consistency with priorities established in the strategic planning process
  - (b) Coherence with the overall body of standards, to avoid conflict
  - (c) Appropriate scope to address key issues, and to specify to whom the standard applies
  - (d) Scalability, including proportionality
  - (e) Timeliness, without sacrificing quality
  - (f) Relevance in recognising and responding to emerging issues, changes in business environment, developments in accounting practices or technology
  - (g) Completeness, reflecting results of broad consultation and balancing stakeholder priorities
  - (h) Comprehensiveness, by limiting exceptions to the principles
  - (i) Clarity and conciseness
  - (j) Implementability and ability to be consistently applied
  - (k) Enforceable, through clearly stated responsibilities
4. The public interest responsiveness is assessed by applying the qualitative characteristics in the following steps:
  - (a) Identify the perspectives and needs of groups with legitimate interests
  - (b) Define the desired goal that would allow the standard to best serve user needs.
  - (c) Identify criteria to assess responsiveness to the goal
  - (d) According to the criteria, reasonably weigh input from different groups
  - (e) Assess the expected contribution of the standard to meeting its goal and consider whether it is responsive to the public interest.

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<sup>7</sup> The members of the Monitoring Group are the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organization of Securities Commissions, and the World Bank Group.

**APPENDIX 2 - Flowchart to depict the ‘compelling reasons test’ in the Principles of Convergence with the IAASB and IESBA standards**



**NZAuASB Board Meeting Summary Paper**

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**AGENDA ITEM NO.** 10.1

**Meeting date:** 2 December 2021

**Subject:** International Update

**Date:** 18 November 2021

**Prepared By:** Peyman Momenan

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 **Action Required** **For Information Purposes Only**

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**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 October and November 2021.

**International Federation of Accountants (IFAC)**

1. In November 2021, IFAC unveiled a new [online resource](#) providing unprecedented access to the international standards that support and distinguish the accountancy profession. eIS, short for e-International Standards, provides direct access to the standards developed by the [International Audit and Assurance Standards Board \(IAASB\)](#), the [International Ethics Standards Board for Accountants \(IESBA\)](#), and the [International Public Sector Accounting Standards Board \(IPSASB\)](#), alongside key support, reference, and guidance materials, available to contextualize the language and provide enhanced transparency. Learn more about eIS [here](#) or visit the platform today: [eis.international-standards.org](https://eis.international-standards.org)
2. welcomes the [establishment of the International Sustainability Standards Board \(ISSB\)](#) working in close cooperation with the International Accounting Standards Board (IASB), under the governance structure and leadership of the IFRS Foundation. IFAC congratulates the IFRS Foundation Trustees for moving with unprecedented speed to meet the needs of investors, provide a holistic view of enterprise value, and address the climate crisis. Climate and other sustainability issues are global in nature and the ISSB will deliver a global solution for sustainability disclosure. The multi-jurisdictional footprint of the ISSB reflects this reality and can hopefully facilitate implementation of the ISSB's standards.

IFAC also welcomes commitments to combine the CDSB and Value Reporting Foundation with the IFRS Foundation—providing much needed consolidation and contributing support and resources toward the success of the new ISSB. This positions the ISSB to build upon the high-quality work of existing sustainability-related initiatives and harmonize the standard-setting landscape—delivering a *comprehensive* global baseline of sustainability information material to enterprise value, connected to financial reporting through the fundamental concepts and guiding principles of integrated reporting.

“Now is the time for policymakers around the world to focus on how to capitalize on the forthcoming work of the ISSB,” said IFAC CEO Kevin Dancey. “As with the success of IFRS Standards for

financial reporting, IOSCO's support is key. Jurisdictions around the world need to take the next step—deciding to use, implement, and enforce IFRS Sustainability Disclosure Standards as part of a Building Blocks Approach that will deliver the global baseline for sustainability-related reporting needed for investors and capital markets.”

### **Anti-Fraud Collaboration (AFC):**

1. No update for the period.

### **International Auditing and Assurance Standards Board (IAASB)**

1. The IAASB Ongoing projects (refer to appendix 1).
2. The current Auditing and Assurance Standards Board (AUASB) Chair, Mr Bill Edge, has been appointed as a member of the International Auditing and Assurance Standards Board (IAASB) for 3 years commencing January 2022.
3. In late July, the International Auditing and Assurance Standards Board (IAASB) [opened a six-month public consultation](#) on its landmark new proposed standard for audits of financial statements of less complex entities (LCEs).

While the IAASB encourages all interested stakeholders to [respond to the consultation in writing](#), it recognizes that some may not have the time or resources to do so. To help, the International Federation of Accountants and the IAASB developed a [survey to offer an alternative way to participate](#) in the consultation and provide your views. The survey is open until January 14, 2022 and is available in English, French and Spanish by clicking the language selector in the survey's top right corner.

Survey responses will be analyzed by the IAASB alongside all other feedback and help shape the final standard; individual survey responses are confidential.

### **International Ethics Standards Board for Accountants (IESBA)**

1. No update for the period.

### **Accountancy Europe (AE) (former FEE)**

1. Accountancy Europe applauds Commissioner McGuinness' approach to sustainability standards announced at COP 26 and the consolidation of VRF and CDSB under the IFRS Foundation Accountancy Europe fully supports the European Green Deal ambitions. The world needs to transform its business model if we are to become sustainable. Reporting will help policymakers, financial markets and other stakeholders support and drive this change.

We welcome the approach by Commissioner McGuinness, including the objective of close alignment with global standards. This is particularly important as the IFRS Foundation launched the International Sustainability Standards Board (ISSB) and the Value Reporting Foundation (VRF) and Climate Disclosure Standards Board (CDSB) consolidation within the ISSB. We commend all parties involved for putting the global public interest ahead of their own respective agendas.

The IFRS Foundation move is a significant step to build a global eco-system for sustainability reporting that delivers more transparent and comparable sustainability information for investors. It will also bring much needed consolidation of sustainability disclosure standards on a global scale. We therefore welcome the prototype climate and general disclosure requirements Borrowing the Commissioner's words, we welcome “*the IFRS Foundation initiative to develop a common global baseline*” [...] “*global standards should be a common floor, not a ceiling that limits those that want to go further and faster*”. We will continue to support the EU's efforts.



2. The European Commission (EC) adopted [a proposal for the Corporate Sustainability Reporting Directive](#) (CSRD) to strengthen sustainability reporting. This is fundamental to achieve a sustainable economy. It requires companies to report more comparable, targeted, reliable as well as easily accessible information as the basis for sustainable decision-making.

The EC also introduces an EU-wide requirement for **limited assurance on sustainability information** (see amendments proposed to Article 34). According to the EC proposal, independent external assurance enhances the reported sustainability information's credibility. This helps meet the growing demands for reliable information on sustainability matters.

[This FAQ](#) provides answers to recurring questions on sustainability information assurance, specifically on:

- limited and reasonable assurance engagements
- assurance requirements and the EU regulatory framework
- technical aspects of professional assurance standards

3. Stakeholders' increased expectations from companies for more transparency are accompanied by assurance needs on the information provided. Businesses count on auditors to deliver other assurance services and contribute to markets' sound functioning.

These assurance services are often closely linked to financial statements audit and third parties take comfort from auditor's involvement. [This publication](#) provides an overview of the measures that ensure auditors' independence while providing other assurance services to the companies they audit.

We detail how auditor's independence is maintained through:

- legal restrictions and ethical requirements
- public oversight and audit committee scrutiny
- transparency of fee-related information

### **Public Interest Oversight Board of IFAC (PIOB)**

1. The meeting with the IAASB leadership was attended by Tom Seidenstein, Chair; Willie Botha, Technical Director; James Dalkin, CAG Chair and James Gunn, Managing Director of Professional Standards. The matters discussed were the projects on Fraud and ISA 600, Group audits, as well as the IAASB Work Plan, with specific reference to the IAASB initiatives regarding ESG assurance.
2. On Friday, 15 October 2021 the PIOB met with the IESBA leadership, namely Stavros Thomadakis, Chair, Ken Siong, IESBA Technical Director; Gaylen Hansen, CAG Chair; Mike Ashley, Task Force Chair of the Definition of Listed/ Public Interest Entity (PIE project) and James Gunn, Managing Director of Professional Standards. The Task Force Chair provided a thorough update on this project, which is planned for approval at the December 2021 meeting of the IESBA. Further discussions revolved around other projects on the IESBA agenda, with specific reference to Tax Planning. Following this session, the PIOB met with the IESBA CAG Chair in a private session.
3. During this quarter, the PIOB published: -
  - The August [IAASB Public Interest Issues lists](#) –
  - The August [IESBA Public Interest Issues lists](#)
4. PIOB's views regarding the definition of PIE: The definition of PIE is crucial to determine the categories of entities that are subject to stricter requirements in the Code (and the ISAs), such as NAS and Fees.

The PIOB believes the definition of PIE should include all entities with a public interest, due to their impact on society (e.g. financial institutions, listed companies, significant utility companies), as well as those defined as PIEs by local regulatory and legislative bodies in their own jurisdictions, to ensure the global applicability of the Code of Ethics.

Consideration should be given to any other entities outside the financial sector that could pose a threat to financial stability, to ensure that the proposed list achieves the overarching objective and that there are no evident gaps. The PIOB notes that one of the factors considered in the ED to determine the extent of public interest of an entity is "the potential systemic impact on other sectors

and the economy as a whole in the event of financial failure of the entity". The PIOB also notes the overarching objective proposed by IESBA that reflects the "significant public interest in the financial condition" of these entities and that the purpose of having differential requirements is "to enhance confidence in their financial statements through enhancing confidence in the audit of those financial statements".

The PIOB welcomes the approach followed by IESBA setting a broad approach to defining PIEs, with an extended list of factors that help define these entities and an expanded list of entities categorized as PIEs within the Code. This list could then be further refined by local regulatory bodies and expanded by audit firms, if Definition of PIEs applicable. The PIOB agrees that this approach allows to consider scalability and may facilitate consistent application across different jurisdictions

### **Global Reporting Initiative (GRI)**

#### **1. GRI responds to IFRS Foundation's creation of a new sustainability board and consolidation of CDSB and VRF into the foundation**

Confirmation by the IFRS Foundation that they will address the impacts on value creation of sustainability topics in their standards, through the formation of an International Sustainability Standards Board (ISSB), has been welcomed by GRI.

The [IFRS Foundation announcement on 3 November](#) sets out that the new ISSB will develop a 'global baseline' for investor-focused sustainability disclosures, while a prototype climate disclosure has published. The news includes that the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF, which include IIRC and SASB) are to consolidate under the IFRS.

### **International Forum of Independent Audit Regulators (IFIAR)**

1. There have been no significant developments related to audit and assurance to report in the period.

### **International Organization of Securities Commissions (IOSCO)**

1. Ashley Alder, Chairman of IOSCO (and CEO of the Hong Kong SFC), welcomed the publication by the IFRS Foundation of the prototype for the Climate Disclosure standard to be finalized in 2022 and told delegates that the IFRS Foundation is making good progress towards issuing the climate disclosure standard in 2022. Ashley Alder said: "We have been looking for five key things from the IFRS Foundation:
  - Prompt establishment of the ISSB,
  - an early public indication for the market of the general approach the climate disclosure standard will take, • close and credible engagement with stakeholders,
  - interoperability with other sustainability reporting requirements in jurisdictions and
  - evidence of a strong understanding of what markets need in terms of meaningful disclosures.

Following close interaction with IOSCO on the now published prototype for the ISSB's climate disclosure standard and the imminent announcement of the leadership of the ISSB, the IFRS Foundation is making good progress." He concluded: "If the ISSB's future standard meets IOSCO's expectations, our endorsement will support all our 130 members in considering ways they might adopt, apply or be informed by the standard."

2. The IOSCO has published in November 2021 a set of [recommendations about sustainability-related practices, policies, procedures and disclosures in the asset management industry](#). Ashley Alder, Chairman of IOSCO and CEO of the Hong Kong SFC said that "Asset managers, who are a critical part of the sustainable finance ecosystem, play a major role in helping investors achieve their investment objectives. Regulatory guidance on how asset managers consider material sustainability-related risks and opportunities, integrate them into the decision-making process, and make disclosures, will allow investors to understand the impact of their investments."

# Australia

## The Australian Auditing and Assurance Standards Board (AUASB)

1. There have been no significant developments related to audit and assurance to report in the period

# United Kingdom

## FRC

1. On 15 November 2021, the FRC, for the first time, published a blueprint for what is required by UK audit firms to deliver high-quality audit
  - Investors, employees, pensioners and savers expect to rely on better quality information about the performance and prospects of UK companies
  - In 2021, almost 30% of audits reviewed by the FRC are not meeting acceptable standards so significant improvements are required and soon

A new report from the Financial Reporting Council (FRC) has set out the key elements required by audit firms to ensure they are delivering high quality audit.

The FRC's report, [What Makes a Good Audit?](#), highlights the six key attributes that contribute to the running of high-quality audit practices such as the culture, governance and leadership of the firms, alongside their investment in well qualified people, training and processes. It also includes the key elements that contribute to high quality individual audits from the planning phase, through to the delivery and completion of audits.

To support the delivery of high-quality audit, the report provides a range of examples of good practice identified by the FRC over recent audit quality inspections and supervision work.

2. This year premium listed companies will need to report against the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations on a comply or explain basis in their annual reports with other companies following in the future.

The Financial Reporting Lab (the Lab) has published a [report](#) in advance of these requirements to help companies prepare for mandatory TCFD reporting. It includes practical advice and examples that better address aspects of TCFD reporting from those companies already adopting the framework on a voluntary basis. Alongside the report, the Lab has also published a [snapshot](#) of the status of current reporting against the TCFD framework in the UK which highlights the increased uptake in the last year.

One of the biggest challenges for companies adopting the TCFD framework is carrying out scenario analysis. In addition to the Lab's reports, the FRC has also published [research](#) by the Alliance Manchester Business School which investigates climate-related scenario analysis in more detail. The research highlights the various approaches companies have adopted, instances of good practice, typical challenges faced, and the common steps taken to conduct the analysis. Listen to a podcast hosted by the Lab with Alliance Manchester Business School on this report [here](#).

3. The Financial Reporting Council (FRC) has today published its [Annual Review of Corporate Reporting](#), which outlines the FRC's 'top ten' areas where improvements to reporting are required. These include reporting on judgements and estimates, revenue and cash flow statements.

The FRC reviewed 246 reports and accounts (a 14% increase on 2020) and wrote to 97 companies with substantive questions about their reports. Overall, the review found the quality of reporting remained unchanged, despite the impact of the Covid-19 pandemic. However, significant non-compliance was found at 15 companies that were required to restate their accounts.

In line with FRC guidance, most companies with December year ends reported the effects of the

Covid-19 pandemic on their results and prospects and included additional information on key forward-looking judgements of interest to investors, such as going concern.

In addition, the FRC has also published its [year-end bulletin of key corporate reporting matters for companies](#) which sets out the FRC's areas of focus for the coming year. From next year, premium listed companies will be required to disclose their compliance with the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations on a comply-or-explain basis. The FRC also expects material climate change policies, risks and uncertainties to be included in narrative reporting and appropriately considered and reflected in the financial statements.

4. The FRC in October 2021 published its [inspection findings into the quality of major local body audits](#) in England (which includes large health and local government bodies) for the financial year ended 31 March 2020.

The FRC reviewed 20 major local audits performed by six of the largest audit firms and found 6 (30%) required improvements. This is an improvement on the prior year inspection results where 60% of audits inspected required either improvements or significant improvements.

It is encouraging that the firms have taken action in response to previous findings, however, the timeliness of auditor reporting is disappointing. The FRC had to replace half of the local government audits initially selected for inspection (including higher risk audits) because the audits had not been finalised and signed.\*

The key areas requiring action by some of the audit firms include:

- strengthening the audit testing of expenditure;
- improving the evaluation and challenge of assumptions used in concluding over investment property valuations;
- improving the evaluation of assumptions used in property, plant and equipment valuations; and
- providing improved rationale supporting a modified audit opinion.

We are pleased to note that all Value for Money arrangement conclusions inspected by the FRC required no more than limited improvements.

The FRC's Executive Director of Supervision, Sarah Rapson said:

*“High quality audit of local government and other public bodies is an important public interest function, providing an independent view of local body financial statements and the arrangements in place to secure value for money.”*

*While it is encouraging to note the firms' response to previous year's findings, it is clear significant progress is still required to ensure high quality audit is being delivered on a consistent basis.*

*We expect the firms to build on this progress and swiftly address any deficiencies identified.”*

A link to the full inspection findings can be found [here](#).

### **Institute of Chartered Accountants in England and Wales**

1. Despite significant financial risks faced from the climate crisis and net zero pledges made by many, the report criticises audit firms after it emerged that in 80% of cases, external auditors did not appear to assess the effects of climate risks when auditing them. The study [Flying Blind: The glaring absence of climate risk in financial reporting](#) analysed financial statements from 107 publicly-listed organisations deemed either carbon-intensive or crucial to the energy transition, including those in the oil and gas, transportation and utilities sectors and household names including Chevron, Exxon Mobil, BMW, and Air France-KLM. It concluded there is little evidence that companies incorporate material climate-related matters into their financial statements. Carbon Tracker also found that most climate-related assumptions

and estimates are not visible in the financial statements. Even when climate-related matters are touched on, most companies do not tell a consistent story across their reporting

### **Association of Chartered Certified Accountants (ACCA)**

1. The Association of Chartered Certified Accountants agrees with the overarching aim of the consultation - ensuring high quality and reliable corporate reporting for healthy financial markets, business investment and economic growth, as well as cross-border investments and the development of the capital markets union (CMU). ACCA will now carefully assess the questions of the consultation and look forward to contributing to the public debate.

Mike Suffield, director of Professional Insights at ACCA says: 'We welcome the end-goal of the [consultation](#), which is improving audit quality – an issue that remains vital to public confidence in audit.

'Concerns about audit quality persist, both about those audits that fall below satisfactory standards and about the pace of improvement. As UN climate talks [concluded](#) with a deal - the Glasgow Climate Pact – it's also more important than ever to foster integrity and trust in sustainability-related information by leveraging robust, transparent, and trustworthy methods of assurance. An open and honest debate both at global and EU level is therefore needed about how audit quality can be maximised and driven.'

As highlighted in its report [Tenets of a quality audit](#), ACCA believes that the factors that contribute to a quality audit are varied and include: thoroughness and timeliness; independence and closeness; standardisation and autonomy; delivering a holistic opinion and responding to fraud; being both backward-looking and forward-looking, and supporting both transparency and, where appropriate, confidentiality.

2. The audit expectation gap - what users expect from the auditor and the financial statement audit versus the reality of what an audit is - needs to be narrowed for the benefit of the public interest, says a new report issued by the Association of Chartered Certified Accountants (ACCA), Chartered Accountants Australia and New Zealand (CA ANZ), Chartered Professional Accountants of Canada (CPA Canada) and the Canadian Auditing and Assurance Standards Board (AASB).

A holistic approach is especially needed to narrow the expectation gap related to fraud and going concern, where all stakeholders will need to play vital roles in meaningful change.

With audit quality a concern in many countries, the report - [Closing the expectation gap in audit – the way forward on fraud and going concern: A multi-stakeholder approach](#) - offers recommendations based on research with key players of the financial reporting ecosystem. These include financial statement preparers, auditors, regulators, boards and audit committees, and investors.

## United States of America

### **Public Company Accounting Oversight Board (PCAOB)**

1. In 2020, the Public Company Accounting Oversight Board (PCAOB or “the Board”) inspected 153 audit firms, reviewing portions of 617 audits that generally had financial years ended during 2019 and the first half of 2020. [This Spotlight](#) presents our aggregate observations, which we share as a preview of the inspection reports that we will publish for individual audit firms.
2. The PCAOB issued [staff guidance](#) Thursday on things for auditors to consider regarding the relevance and reliability of information from external sources that the auditor plans to use as audit evidence.  
In addition, the guidance addresses the relationship between the quality and quantity of audit evidence.

### **American Institute of Certified Public Accountants (AICPA)**

1. There have been no significant developments related to audit and assurance to report in the period.

### **Center for Audit Quality (CAQ) - (affiliated with AICPA)**

1. In a rapidly evolving environment, external public company auditors remain committed to maintaining the highest standards of audit quality. This commitment to quality was on full display at the Future of Audit Quality event hosted by the CAQ and the Chamber of Commerce's Center for Capital Market Effectiveness. [Take a look](#) back at the key takeaways from the event.
2. The [2021 Audit Committee Transparency Barometer](#), now in its 8th year, found that the most dramatic increase continues to be disclosure of audit committee responsibility for cybersecurity risk oversight, from 11% of S&P 500 companies in 2016 to 46% of S&P 500 companies in 2021, which can be attributed to rising cybercrime and trends towards remote work that have exposed new vulnerabilities.  
Despite the positive trend of increased disclosures observed, there remains several opportunities for audit committees to further increase their disclosures, particularly around oversight of audit firm compensation, including fee negotiations, connection to audit quality, and changes in fees.

## Canada

### **Canadian Auditing and Assurance Standards Board (AASB)**

1. The AASB issued [this discussion paper](#) on the ED-ISA for LCE.

### **CPA Canada**

1. The importance of sustainability reporting continues to gain momentum with urgent demands from various stakeholders and substantial developments toward a global set of sustainability standards.
2. [Read on](#) to gain an understanding of:
  - why sustainability reporting and assurance are important
  - what are sustainability reporting and sustainability assurance
  - what guidance exists for practitioners undertaking a sustainability assurance engagement
  - what are current developments around sustainability reporting and assurance, and how CPA Canada is involved
  - how the movement towards global sustainability standards impacts the audit profession and why it is relevant

Project	Overview of the project and its current status
<p><b>Group Audits–ISA 600</b></p> <p><b>No Update for the period</b></p>	<p><b>Objective of the project:</b> 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><b>Background and current status:</b> 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, <a href="#">presented the results</a> 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)<sup>3</sup> TF, to help ensure that the requirements in those standards provide appropriate connection points between those projects and ISA 600.<sup>4</sup> 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>In March 2019, the Board was updated on the work performed by the Group Audit Task Force since the start of the project to revise ISA 600<sup>1</sup> and was asked for its views on issues related to scoping a group audit, the definitions, and the linkages with other ISAs. The Board continued to support developing a risk-based approach for scoping a group audit and generally supported the Group Audit Task Force’s approach on the definitions and the issues that were presented in relation to the responsibilities of the group engagement partner, acceptance and continuance, understanding the group and its components, understanding the component auditor, identifying and assessing the risks of</p>

<sup>1</sup> International Standard on Auditing (ISA) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

	<p>material misstatement and responding to assessed risks, the consolidation process, communication between the group auditor and component auditors, and evaluating the audit evidence obtained. These and other issues need to be further developed in the context of the risk-based approach and changes made to other of the IAASB's International Standards. The Group Audit Task Force will continue to work on the issues related to scoping a group audit, the definitions and other issues identified in the <a href="#">Invitation to Comment</a>, and will present it for further discussion at the June 2019 IAASB meeting.</p> <p>In June 2019, the Board was updated on the ISA 6003 Task Force's progress since the March 2019 meeting and discussed the public interest issues that the ISA 600 Task Force identified, the ISA 600 Task Force's proposals with respect to the risk-based approach to scoping a group audit, and the special considerations related to auditing a group. The Board also discussed indicative drafting related to the risk-based approach to scoping a group audit and the special considerations related to proposed ISA 220 (Revised).<sup>4</sup> Generally, the Board was supportive of the approach taken but had suggestions on the way forward and the indicative drafting. The ISA 600 Task Force will take these comments into account and will present further drafting at the September 2019 meeting. The ISA 600 Task Force will also continue its outreach to key stakeholders and coordinate with IESBA and other IAASB Task Forces as needed.</p> <p>In September 2019, the Board was updated on the work of the ISA 600 Task Force since the June 2019 meeting, including the outreach performed and the feedback received from the IAASB's Consultative Advisory Group. The Board discussed, among other matters, the updated public interest issues, a draft of a significant part of the standard and the ISA 600 Task Force's proposals with respect to the scope and structure of the standard, materiality considerations in a group audit and a proposed stand-back requirement. The ISA 600 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.</p> <p>In December 2019, the Board was updated on the work of the ISA 600 Task Force since the September 2019 meeting, including the outreach performed, and discussed a full draft of the proposed revised standard (except the appendices). The draft of proposed ISA 600 (Revised)<sup>1</sup> included updated requirements and application material on sections that were presented to the Board in September 2019 and new requirements and application material on, among other matters, materiality, communications with component auditors and documentation.</p> <p>The ISA 600 Task Force will take the Board's comments on the proposed revised standard into account and will present an updated version for approval for public exposure at its March 2020 meeting. The Task Force will discuss the conforming amendments and the appendices to proposed ISA 600 (Revised) in the January 23, 2020 Board teleconference.</p> <p>In March 2020, after making amendments in response to the IAASB's comments received during the meeting, the IAASB approved the Exposure</p>
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	<p>Draft (ED) of proposed ISA 600 (Revised)<sup>1</sup> and related conforming and consequential amendments for public exposure with 18 affirmative votes out of the 18 IAASB members present. The ED will be issued in mid-April with a comment period of 120 days.</p> <p>In finalizing the ED, the IAASB continued to discuss whether it is sufficiently clear how the standard described the involvement of component auditors. On balance, the IAASB was satisfied that the draft sets out acceptable proposals on all significant areas for this project and that it is appropriate to proceed to seek stakeholder views whether the proposals could be effectively implemented.</p> <p>The IAASB also discussed possible matters to be addressed in the explanatory memorandum that will accompany the ED.</p> <p>In December 2020, the Board discussed respondents' comments on the Exposure Draft of proposed ISA 600 (Revised) (ED-600)<sup>2</sup> related to the scope and applicability of the proposed standard, the definition of component, the definition of engagement team, and the risk-based approach including the involvement of component auditors, as well as the ISA 600 Task Force's initial views and recommendations on the way forward. In addition, the Board received a high-level overview of respondents' comments related to other areas in ED-600. The ISA 600 Task Force will present issues related to this project at the March 2021 IAASB meeting.</p> <p>In March 2021, The Board discussed proposed changes based on respondents' comments on the Exposure Draft of proposed ISA 600 (Revised) (ED-600)<sup>1</sup> and the Board's discussion in December 2020. In addition, the Board discussed respondents' comments on ED-600 related to materiality and documentation, as well as the ISA 600 Task Force's views and recommendations on the way forward. The ISA 600 Task Force will continue to address respondents' comments on ED-600, and progress changes to proposed ISA 600 (Revised) as appropriate. The Task Force will present further proposed changes at the June 2021 IAASB meeting.</p> <p>In June 2021, The Board discussed a near complete draft of proposed ISA 600 (Revised) that reflects changes based on respondents' comments on the Exposure Draft of Proposed ISA 600 (Revised) (ED-600) and the Board's discussion in March 2021. In addition, the Board discussed the ISA 600 Task Force's analysis of respondents' comments related to several remaining questions in the Explanatory Memorandum to ED-600. The ISA 600 Task Force will continue to update the drafting of proposed ISA 600 (Revised) and will presents its work at the September 2021 IAASB meeting.</p> <p>In September 2021, the Board discussed the draft of proposed ISA 600 (Revised)<sup>1</sup> that reflects changes based on the Board's discussion in June 2021. In addition, the Board discussed the ISA 600 Task Force's analysis of respondents' comments related to the last remaining questions in the Explanatory Memorandum on the Exposure Draft of Proposed ISA 600 (Revised), including the question related to the effective date of proposed ISA 600 (Revised). The ISA 600 Task Force will update the drafting of proposed</p>
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	ISA 600 (Revised) and will presents its work, for approval, at the December 2021 IAASB meeting.
<p><b>Professional Scepticism</b></p> <p><b>No Update for the period</b></p>	<p><b>Objective of the project:</b> To make recommendations on how to more effectively respond to issues related to professional scepticism.</p> <p><b>Background and current status:</b> 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, <a href="#">presented the results</a> 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 <a href="#">here</a>.</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>In September 2018 meeting, The Board received an update on the activities of the IAASB's Professional Skepticism Subgroup (Subgroup) since March 2018. The Chair of the Subgroup also presented the Board with a draft publication that seeks to highlight the IAASB's efforts to appropriately reflect professional skepticism into the IAASB standards as well as other relevant news and information on professional skepticism, including collaboration with the International Ethics Standards Board for Accountants (IESBA) and International Accounting Education Standards Board (IAESB). The Board supported the issuance of the publication and future publications of this nature.</p>
<p><b>LCE</b> <b>No Update for the period</b></p>	<p>In March 2019 the Board discussed a proposed Discussion Paper (DP), <i>Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Implementing the ISAs</i>. The discussion highlighted the shift in focus on complexity of the entity rather than its size in driving the ongoing discussions and activities to address issues and challenges in audits of less complex entities (LCEs). The Board was supportive of the DP's overall direction, noting the importance of the project and the need for action by the IAASB and others.</p> <p>The Board liked the simple, clear way the DP had been presented and noted it was appropriate for its key target audience (i.e., auditors of LCEs). The Board made suggestions for improvements, particularly with respect to the issues and challenges, the possible actions presented within the DP and the questions to be posed to respondents in order to obtain relevant and useful feedback. Proposed changes to the DP will be presented in a Board call on April 10<sup>th</sup>, with the final DP targeted to be published for public consultation before the end of April 2019.</p> <p>The Board discussed the feedback received to date related to audits of less complex entities, including from the Discussion Paper (DP), <i>Audits of Less Complex Entities (LCEs): Exploring Possible Options to Address the Challenges in Applying the ISAs</i>, and other related outreach. The key messages received from the feedback highlighted the strong support for the IAASB's work in this area, as well as the need for a timely and global solution. The Board asked the LCE Working Group to continue to analyze the feedback from stakeholders to help determine the most appropriate way forward, and it was agreed that further information gathering activities would continue until June 2020, at which time it is anticipated that a decision about the way forward will be made. As part of the proposal for work in this area, the IAASB had agreed that it was important to keep stakeholders informed of its progress in relation to its work on audits of LCEs. Accordingly, the Board agreed to publish a Feedback Statement in December 2019 detailing what the IAASB had heard from its consultation and related outreach.</p> <p>In June 2020, the Board discussed the LCE Working Group's recommendations for developing a separate standard for Audits of Less Complex Entities (LCEs)</p>

	<p>on the basis of overarching principles outlining how the separate standard could be developed.</p> <p>Notwithstanding the support for some of the overarching principles outlined, the Board requested the LCE Working Group to further consider how the separate standard could be developed so that it is standalone, while also clarifying the linkage back to the ISAs as appropriate. In doing so, the Board also encouraged further consideration of materials to help apply the separate standard, either within the standard (as application material) or outside as support materials. The Board highlighted the importance of the description of an LCE to help in developing the content of the separate standard. The Board encouraged a more prescriptive definition for the application of the standard, although the Board recognized there would always be a level of judgment in making this determination. On this basis, the Board supported that the LCE Working Group commence development of the separate standard as well as prepare a project proposal for approval at the December 2020 IAASB meeting.</p> <p>In December 2020, the Board discussed and approved a project proposal for the development of a separate standard for audits of financial statements of LCEs and discussed targeted matters related to the initial working draft of the standard. In addition to the broad support for excluding listed entities from the scope of the audit standard for LCEs and for the flow and structure of the standard, the Board provided further inputs on various considerations related to the applicability of the standard and other key aspects relevant to further progressing the development of the standard. The Board recognized the significant outreach undertaken to date by the LCE Working Group, including with the LCE Reference Group, and encouraged this interaction to continue as the development of the audit standard for LCEs progresses to ensure that the proposals developed are usable and meet stakeholder expectations. The LCE Task Force will continue its development work and present a revised draft of the proposed audit standard for LCEs to the IAASB for discussion at the March 2021 IAASB meeting.</p> <p>In March 2021, the Board discussed the full draft of the separate standard for audits of financial statements of less complex entities. Significant concerns were expressed about the applicability of the separate standard as it had been presented, and it was agreed that this needed to be further considered. There were mixed views expressed about whether the standard should be issued as an exposure draft after the June 2021 IAASB meeting, however some Board members strongly emphasized the need for consultation on the standard to obtain views of the IAASB's stakeholders about whether the standard could and would be used. Further discussions about the name and detailed content of the standard indicated that there are mixed views about some of the matters presented in the draft, which would require further consideration by the LCE Task Force. The LCE Task Force will continue to progress the draft with the intent to consult on the draft after the June 2021 IAASB meeting.</p>
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	<p>In June 2021, the IAASB approved an exposure draft of its new standard on auditing the financial statements of less complex entities. The Board agreed that consultation is needed on the draft new standard, including its scope and content, and intends to undertake rigorous outreach to obtain input of those for whom the standard is intended. The standard is intended to be a standalone standard and is based on similar concepts to the ISAs, i.e., the requirements are principles-based with the objective of obtaining sufficient appropriate audit evidence to support a reasonable assurance opinion. The draft standard will be published for consultation in late July and the comment period will be open until the end of January 2022. It is also intended that the exposure draft and its supporting documents will be published in Spanish and French.</p>
<p><b>Audit Evidence</b>  <b>No Update for the period</b></p>	<p>The Board discussed the analysis undertaken by the Audit Evidence Working Group of the issues across the ISAs related to audit evidence and the use of technology more broadly, and the possible actions to address the issues. The Board concurred that guidance should be developed on the effect of technology when applying certain aspects of the ISAs, and that this should be actioned expeditiously.</p> <p>The Board also indicated that more extensive information gathering and research need to be undertaken to understand the issues related to audit evidence, so that the Board is fully informed of the issues in determining the need for revisions to ISA 5005 and possibly other related standards.</p> <p>In September 2019, the Board was provided with an overview of the development of the Audit Evidence Workstream Plan. The Audit Evidence Working Group will accordingly undertake further information gathering and research, and develop recommendations for possible further actions to be presented to the Board in the first half of 2020.</p> <p>In June 2020, the Board discussed the outcome of the Audit Evidence Working Group's information gathering and targeted outreach activities. Based on the feedback, the Board agreed with the Audit Evidence Working Group's conclusion that the listing of audit evidence related issues, as presented, is appropriate. The Board supported the Audit Evidence Working Group's recommendation to develop a project proposal to revise ISA 500,5 including conforming and consequential amendments to other standards, for approval at the December 2020 IAASB meeting, and to continue in the interim to evolve its approach, as presented, to progress the revision of ISA 500 (and conforming and consequential amendments to other standards). The Board also recommended that the Working Group publish a project update to inform stakeholders about the activities undertaken to date.</p> <p>The Board discussed and approved a project proposal to revise ISA 500,1 including conforming and consequential amendments to other standards. In addition, the Board provided direction on the initial views of the Audit Evidence Task Force on key issues to progress the revision of the standard, including: the purpose and scope of the standard, the concept and evaluation of sufficient</p>

	<p>appropriate audit evidence, the distinction between sources of information in ISA 500 and the use of information for different types of audit procedures. The Audit Evidence Task Force will present issues related to this project at the March 2021 IAASB meeting.</p> <p>In March 2021, the Board provided direction on the initial proposals of the Audit Evidence Task Force (AETF) on the definition of audit evidence and the meaning of audit procedures. The Board also discussed the meaning of sufficient appropriate audit evidence, including the factors the auditor would think about when considering whether sufficient appropriate audit evidence has been obtained. The Board considered the AETF’s further proposals to incorporate a principles-based approach in considering the relevance and reliability of information intended to be used as audit evidence. The AETF will present further proposals on these issues and other issues related to this project at the June 2021 IAASB meeting.</p> <p>In Its June 2021 meeting, the IAASB approved an exposure draft of its new standard on auditing the financial statements of less complex entities. The Board agreed that consultation is needed on the draft new standard, including its scope and content, and intends to undertake rigorous outreach to obtain input of those for whom the standard is intended. The standard is intended to be a standalone standard and is based on similar concepts to the ISAs, i.e., the requirements are principles-based with the objective of obtaining sufficient appropriate audit evidence to support a reasonable assurance opinion. The draft standard will be published for consultation in late July and the comment period will be open until the end of January 2022. It is also intended that the exposure draft and its supporting documents will be published in Spanish and French.</p>
<p><b>Fraud</b></p> <p><b>No Update for the period</b></p>	<p>The IAASB received an update on the information gathering activities in relation to fraud in an audit of financial statements. In particular, it was highlighted that outreach was being undertaken with investor groups to further understand their views. The Board also discussed various specific matters related to the auditor’s efforts with regard to fraud within the ISAs and provided views on possible ways that the issues and challenges could be addressed. The Fraud Working Group will continue to gather information to further inform the Board’s efforts in relation to fraud in an audit of financial statements, including consideration of the responses to the IAASB Discussion Paper that is out on consultation until February 1, 2021.</p> <p>In April 2021, the IAASB considered the analysis of feedback received from its constituents regarding the Fraud Discussion paper.</p> <p>That analysis is summarised <a href="#">here</a>.</p> <p>In June 2021, the Fraud Working Group presented possible actions forward for six specific topics raised by respondents to the discussion paper where mixed responses were received or where emerging issues have been observed in the</p>

	<p>current environment. The Board provided comments for the Fraud Working Group to consider as it develops a project proposal and, if the project proposal is approved, as it further explores the topics discussed. At the July 2021 IAASB meeting, the Fraud Working Group will present possible actions for four remaining topics where mixed responses to the discussion paper were received. The Working Group will also seek to obtain Board feedback on possible project objectives, project scope and public interest issues to inform the development of a project proposal to be presented at the September 2021 IAASB meeting.</p>
<p><b>Listed Entities and Public Interest Entities (PIEs)</b></p> <p><b>No Update for the period</b></p>	<p>At its July 2021 meeting, the IAASB considered respondents' feedback to the IESBA's Exposure Draft, <a href="#">Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code</a> (PIE ED) and discussed the PIE Working Group initial views on the matters for IAASB's consideration. At the October 2021 meeting, the IAASB will discuss any matters of coordination in relation to IESBA's project. The Board will also discuss the objectives, scope and public interest issues for a possible narrow-scope amendments project to be undertaken by the IAASB on this topic.</p>
<p><b>ISA 540 (Revised) implementation support</b></p>	
<p><b>Technology</b></p> <p><b>No update for the period</b></p>	<p>In August 2019, the <a href="#">Technology Workstream Plan</a> was established to set out the process for identifying, developing and issuing non-authoritative guidance that address the effects of technology when applying certain aspects of the ISAs. The Technology Working Group is working to complete the matters set out on the Technology Workstream plan.</p>
<p><b>Complexity Understandability Scalability Proportionality (CUSP)</b></p> <p><b>(No update for the period)</b></p>	<p>At the April 2021 meeting, the IAASB discussed the Drafting Principles and Guidelines, which are designed to address complexity, understandability, scalability and proportionality (CUSP) in the ISAs. The Board strongly supported the Drafting Principles and Guidelines and noted that they will be useful in enhancing the consistency of future International Standards on Auditing (ISAs).</p> <p>The CUSP Working Group is currently undertaking outreach with stakeholders to gather feedback on the Drafting Principles and Guidelines and we would like to invite you to complete a short survey. By answering these few questions, you will be contributing valuable information towards supporting the IAASB in finalizing its Drafting Principles and Guidelines.</p>

<b>Going Concern</b>  <b>(no update for the period)</b>	This project is currently in the information gathering and research phase, which will be used to inform future IAASB decisions about its activities relating to going concern in an audit of financial statements.
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## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	10.2
<b>Meeting date:</b>	2 December 2021
<b>Subject:</b>	Domestic Update
<b>Date:</b>	18 November 2021
<b>Prepared By:</b>	Peyman Momenan

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Action Required

For Information Purposes Only

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### **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 October and November 2021.

### **The Financial Market Authority (FMA)**

1. Auditors have responded well to financial reporting challenges presented by the pandemic, according to the Financial Markets Authority (FMA) - Te Mana Tātai Hokohoko [Audit Quality Monitoring Report for 2020/21](#).
2. The FMA acknowledges the passage of the third reading of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill.  
The new legislation will require certain entities, to be known as Climate Reporting Entities (CREs), to produce annual climate statements that identify and report on the impact of climate change on their organisations and disclose greenhouse gas emissions.  
The intent of the climate-related disclosure (CRD) regime is to ensure that the effects of climate change are routinely considered in CRE's business, investment, lending and insurance underwriting decisions.  
The FMA will be responsible for monitoring and enforcing the new regime.

### **The Chartered Accountants Australia and New Zealand**

1. Climate and sustainability disclosures have become key requirements for most businesses, but the lack of a robust, globally accepted reporting framework has caused confusion and even opportunities for "greenwashing".  
That confusion and opportunity for false claims could be over thanks to new, comprehensive sustainability disclosure standards to meet investors' information needs.  
Development of the standards and a global baseline will be led by the new International Sustainability Standards Board (ISSB), established by the International Financial Reporting Standards (IFRS) Foundation Trustees during COP 26 in Glasgow.  
Chartered Accountants ANZ (CA ANZ) say this is a critical step towards a single set of robust global sustainability reporting standards that are integrated, consistent and of a comparable quality to financial reporting standards.  
CA ANZ also welcomes the announcement that the Climate Disclosure Standards Board (CDSB) and Value Reporting Foundation (VRF) will be consolidated into the IFRS Foundation.  
"This will provide much-needed harmonisation in what was a complex and fragmented reporting landscape," CA ANZ Business Reform Leader, Karen McWilliams, said.

2. The audit expectation gap - what users expect from the auditor and the financial statement audit versus the reality of what an audit is - needs to be narrowed for the benefit of the public interest, says a new report issued by the Association of Chartered Certified Accountants (ACCA), Chartered Accountants Australia and New Zealand (CA ANZ), Chartered Professional Accountants of Canada (CPA Canada) and the Canadian Auditing and Assurance Standards Board (AASB).

A holistic approach is especially needed to narrow the expectation gap related to fraud and going concern, where all stakeholders will need to play vital roles in meaningful change.

With audit quality a concern in many countries, the report - [\*Closing the expectation gap in audit – the way forward on fraud and going concern: A multi-stakeholder approach\*](#) - offers recommendations based on research with key players of the financial reporting ecosystem. These include financial statement preparers, auditors, regulators, boards and audit committees, and investors.

### **CPA Australia**

1. No update.

### **The Institute of Directors (IoD)**

1. No update.