



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

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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 services¹. The NZAuASB has delegated authority from the XRB Board to develop or adopt and issue these auditing and assurance standards in the public interest² 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 services¹, 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 standards³ 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.

¹ Agreed upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

² 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.

³ 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 interest⁴ 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.

⁴ 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 interest⁵ 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.

⁵ 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 interest⁶ 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.

⁶ 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 Group⁷ 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.

⁷ 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

