

New Zealand Auditing and Assurance Standards Board

MEETING PACK

for

NZAuASB Board Meeting (PUBLIC agenda)

Wednesday, 12 February 2025

9:15 am (NZDT)

Held at:

XRB Boardroom

Level 6, 154 Featherston Street, Wellington

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AGENDA

NZAUASB BOARD MEETING (PUBLIC AGENDA)

Name:	New Zealand Auditing and Assurance Standards Board
Date:	Wednesday, 12 February 2025
Time:	9:15 am to 5:00 pm (NZDT)
Location:	XRB Boardroom, Level 6, 154 Featherston Street, Wellington
Committee Members:	Marje Russ (Committee Chair), David Hay, Doug Niven, John Kensington, Richard Kirkland, Vasana Vanpraseuth, Todd Beardsworth
Attendees:	Karen Griffin, Wendy Venter

- 1. PRIVATE SESSION
- 2. BOARD MANAGEMENT (PUBLIC)

2.1 Action List 9:15 am (5 min)

For Decision

Supporting Documents:

2.1.a	2.1 Action List December 2024.docx	7
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2.2 Chair Report 9:20 am (10 min)

Verbal

2.3 AUASB Update 9:30 am (10 min)

Verbal

2.4 Chief Executive Update 9:40 am (5 min)

Wendy Venter

Verbal

- 3. NZAuASB WORKPLAN (PUBLIC)

3.1 Summary Paper 9:45 am (5 min)

For Discussion

Supporting Documents:

3.1.a	3.1 Summary paper Feb 2025.docx	8
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3.2 2024/25 Prioritisation Schedule 9:50 am (10 min)

For Discussion

Supporting Documents:

3.2.a	3.2 Prioritisation plan 2024_25 Feb.docx	13
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3.3 IAASB Update

10:00 am (15 min)

For Noting

Supporting Documents:

3.3.a	3.3 IAASB Dec 2024 report final.docx	16
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3.4 IESBA Update

10:15 am (15 min)

For Noting

Supporting Documents:

3.4.a	3.4 NZAuASB BMSP IESBA Update.docx	24
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4. MORNING TEA

4.1 Morning Tea

10:30 am (15 min)

5. CODE OF ETHICS (PUBLIC)

5.1 Summary paper

10:45 am (5 min)

For Noting

Supporting Documents:

5.1.a	5.1 IESSA Summary Paper.docx	28
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5.2 Issues paper

10:50 am (55 min)

For Discussion

Supporting Documents:

5.2.a	5.2 IESBA sustainability Issues paper.pdf	30
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5.3 Summary of Requirements

11:45 am (15 min)

For Noting

Supporting Documents:

5.3.a	5.3 IESSA Summary of Requirements.pptx	40
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6. USING THE WORK OF AN EXTERNAL EXPERT (PUBLIC)

6.1 Summary paper

12:00 pm (20 min)

For Noting

Supporting Documents:

6.1.a	6.1 NZAuASB Board Meeting Summary Paper IESBA USE of Experts.docx	47
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6.2 Issues paper 12:20 pm (25 min)

For Discussion

Supporting Documents:

6.2.a	6.2 NZAuASB Issues paper.pdf	51
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7. LUNCH

7.1 LUNCH 12:45 pm (45 min)

8. SERVICE PERFORMANCE INFORMATION (PUBLIC)

8.1 Summary paper 1:30 pm (20 min)

For Noting

Supporting Documents:

8.1.a	8.1 SSP Project Update - XRB Board Memo - February 2025 (1).docx	61
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8.2 Service Performance Guidance - Summary Paper 1:50 pm (15 min)

For Noting

Supporting Documents:

8.2.a	8.2 NZAuASB BMSP SPI guidance.docx	69
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8.3 Outline of guidance 2:05 pm (25 min)

For Discussion

Supporting Documents:

8.3.a	8.3 Draft Audit guidance (Scenario 1 only).docx	71
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9. GOING CONCERN (PUBLIC)

9.1 Summary paper 2:30 pm (30 min)

For Noting

Supporting Documents:

9.1.a	9.1 NZAuASB BMSP Going Concern 02 202511.docx	76
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9.2 Issues paper 3:00 pm (30 min)

For Discussion

Supporting Documents:

9.2.a	9.2 Going Concern for Board Consideration.docx	79
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10. AFTERNOON TEA

10.1 Afternoon tea 3:30 pm (15 min)

11. TRACK 2 PUBLIC INTEREST ENTITY (PUBLIC)

11.1 Summary paper 3:45 pm (15 min)

For Discussion

Supporting Documents:

11.1.a	11.1 PIE summary paper.pdf	87
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11.2 Issues paper 4:00 pm (15 min)

For Discussion

Supporting Documents:

11.2.a	11.2 PIE Issues Paper.docx	89
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12. USER RESEARCH (PUBLIC)

12.1 Summary paper 4:15 pm (30 min)

For Discussion

Supporting Documents:

12.1.a	12.1 NZAuASB BMSP User Research.docx	92
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13. BOARD MANAGEMENT (PRIVATE)

14. Close Meeting

14.1 Close the meeting

Next meeting: NZAuASB Board Meeting - Virtual - 9 Apr 2025, 9:00 am

NZAuASB Action list

Meeting Arose	Board Action	Target Meeting	Status
Oct 2023	Continue to explore next steps on trust and confidence	Oct 2024	Explore commissioning research on user perspectives – refer agenda on user research
June 2024	Consider implications of IFRS name change on the auditing standards	2026	Deferred until IFRS 18 is applicable.
N/A	Update on IAASB project to revise the interim review engagement standard for auditors. The XRB and AUASB staff will support this IAASB project	Dec 2024	Ongoing Sharon Walker and Johanna Forster (AUASB staff) are working to develop a project plan for the IAASB to discuss at the March 2025 meeting with the aim of approval of a project plan in June 2025. This work is overseen by the IAASB staff and two IAASB members who are “sponsors” for the project. This is reflected on the prioritisation schedule. This is a valuable opportunity to shape the standard and further enhance our international relationships.
Dec 2024	Approval of NZ SRE 1 Review of service performance information	Feb 2025	The approved standard will be gazetted the week of the NZAuASB’s February 2025 meeting.
Dec 2024	Service Performance information reporting and assurance provide an updated timeline	Feb 2025	Update and revised timeline within agenda on service performance information
Dec 2024	Feedback given on developing staff GHG guidance	TBC	Guidance to assist users navigate the GHG assurance report will be issued in the Feb Pitopito. Work is ongoing to add examples into developing guidance on uncertainty and data issues on scope 3 GHG emissions. Input has also been sought from a range of practitioners.

Meeting date: 12 February 2025
Subject: NZAuASB Work Plan
Date: 30 January 2024
Prepared By: Misha Pieters

☒ **Action Required**

☒ **For Information Purposes Only**

Objective

1. The objective is for the Board to:
 - a. Receive an update and provide input into developing accountability documents including the XRB's statement of performance expectations (SPE) for 2025/2026 as relevant to assurance
 - b. NOTE the supplementary papers including environmental scanning and
 - c. DISCUSS the prioritisation schedule of the NZAuASB for the remainder of 2024/25.

Accountability documents

2. In December, the NZAuASB reflected on the progress to December 2024 for inclusion in the interim statement of service performance and the developing priorities for the 2025-2030 statement of intent. The statement of intent remains in development. The XRB board will discuss an updated draft at its March meeting.
3. The key priorities for audit and assurance will cover both:
 - a. Financial Statements Audit and Review
 - b. Assurance over non-financial information

SPE for 2025/2026

4. In addition, work has commenced to develop the SPE for 2025/26. We are reflecting on appropriate and meaningful measures and considering how to reflect both the timeliness and quality of our standard setting work, and engagement and outreach as well as the submissions we plan to make.
5. In line with our harmonisation and convergence [policy](#) we anticipate that we will expose the following international exposure drafts:

IAASB

- a. Exposure draft Narrow Scope Amendments for IESBA's Experts Project
- b. Exposure draft of ISA 330 (Revised) *The Auditor's Responses to Assessed Risks*
- c. Exposure draft of ISA 500 (Revised) *Audit Evidence*
- d. Exposure draft of ISA 520 (Revised) *Analytical Procedures*
- e. Exposure draft ISRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (The XRB and the AUASB are providing joint staff support for this project)
- f. Strategy and Work plan for 2028-2031
- g. Exposure draft of revisions to ISA for LCE

IESBA

- h. Exposure Draft Firm Culture and Governance (Refer to IESBA update)
 - i. Strategy and Work plan for 2028-2031
6. When exposing international exposure drafts, we plan to refine our processes to enhance engagement on the cost and benefit of the proposals for New Zealand. This may involve developing a NZ consultation paper in addition to the international explanatory memorandum and international queries to articulate and pose questions related to the cost/benefit of adopting the proposals in New Zealand.
 7. We plan to finalise the following standards:
 - a. ISA (NZ) 240 (Revised) Fraud
 - b. Narrow scope revisions to the auditing and assurance standards for the revised public interest entity definition
 - c. Amendments to auditing standards arising from IESBA's Experts project
 8. At this stage we have not identified NZ specific standards for development and consider that it might still be too early to conduct a formal post implementation review of recent domestic standards. However, we will continue to monitor developments and be responsive if the need for changes or guidance are identified, especially in light of developments on performance reporting in the public sector, service performance reporting for public benefit entities and the emerging assurance over GHG disclosures and climate statements.
 9. We plan to conduct regular outreach and engagement from the standards development phase through issue and implementation phase on all key standards by way of
 - a. Need to Know updates
 - b. Walk – through webcasts and webinars
 - c. Deep Dive seminars
 - d. Panel discussions
 - e. Drop in sessions
 - f. Targeted workshops
 10. We plan to develop guidance and thought leadership on key topics including:
 - a. Research on users perceptions on assurance to enhance trust and confidence with a focus on climate and GHG assurance (refer later agenda item)
 - b. Assurance over service performance information
 - c. Assurance over GHG emissions and climate statements

Prioritisation schedule for 2024/25

11. The prioritisation schedule for 2024/25, in a separate agenda item, has been updated since the December meeting. Highlighted grey lines reflect matters on the February agenda and blue text a status update. Rows highlighted green reflect something has been completed relating to that matter.

Environmental updates

12. Key environmental matters to highlight relevant to the work of the NZAuASB include:

- a. FMA released the [audit quality monitoring report](#) in November 2024. Key matters to note at June 2024 include:

- i. 133 domestic licensed auditors (down from 135 in the prior year)
- ii. 12 domestic registered audit firms (remained steady at 12)
- iii. 1230 FM audits conducted in the preceding 12 months (up from 1190 in the prior year).

The FMA have changed the approach to monitoring registered firms, moving from reviewing audit firms once every two or three years, to an annual review for most firms. However, the total number of audit files reviewed remains consistent.

Although the number of non-compliant files is higher than last year, the total number of findings is similar – 26, compared to 28 reported in 2022/23. The non-compliance rate of 26% is below the international non-compliance rate of 32%.

Relevant to the XRB's standards, and the NZAuASB current workplan, the report includes a focus on going concern and fraud. Staff have not identified any other specific matters related to the XRB's standards.

- b. In January, the FMA issued a [warning](#) to a former FMC auditor regarding conduct as an engagement quality reviewer (EQR). The warning identifies matters related to non-compliance with the XRB's standards. FMA Head of Auditing, Financial Reporting, and Climate Related Disclosures, Jacco Moison, said: "The EQR role is important because it should ensure that an objective evaluation of the significant judgements made by the engagement team has been performed and the conclusions on these judgements are supported by sufficient audit evidence. Licensed auditors must promptly notify the FMA after they become aware that an audit engagement they have worked on or reviewed has not been carried out according to the auditing and assurance standards. Remaining silent harms the transparency of the market and the integrity of the auditing profession."
- c. MBIE is consulting on proposals to strengthen New Zealand capital markets (submissions close 14 February) exploring:
- i. Adjustments to the climate-related disclosures regime including:
 - 1. potential adjustments to the director liability settings to reduce, but not remove, the potential liability of directors for what is reported in climate statements
 - 2. potential adjustments to the listed issuer and investment scheme manager reporting thresholds
 - 3. whether there would be value in encouraging subsidiaries of multinational corporations to file their parent company climate statements in New Zealand.

The XRB produced an [explainer](#) about differential reporting referenced in the discussion document. The implications will be closely monitored by the XRB.

- ii. Kiwisaver settings -considering changes to regulations that would make it easier for KiwiSaver providers to invest some of the funds they manage into private assets.
- d. At its January 2025 meeting, the AUASB approved ASSA 5000 *General Requirements for Sustainability Assurance Engagements*. The AUASB standard will apply to sustainability assurance engagements for reporting periods beginning on or after 1 January 2025. The AUASB also approved the phasing of assurance for mandatory climate reporting as follows:

Years commencing	Year 1*	Year 2	Year 3	Year 4**	Year 5	Year 6
Group 1	1/1/25 to 30/6/26	1/7/26 to 30/06/27	1/7/27 to 30/06/28	1/7/28 to 30/6/29	1/7/29 to 30/6/30	1/7/30 to 30/6/31
Group 2	1/7/26 to 30/6/27	1/7/27 to 30/6/28	1/7/28 to 30/6/29	1/7/29 to 30/6/30	1/7/30 to 30/6/31	1/7/31 to 30/6/32
Group 3	1/7/27 to 30/6/28	1/7/28 to 30/6/29	1/7/29 to 30/6/30	1/7/30 to 30/6/31	1/7/31 to 30/6/32	1/7/32 to 30/6/33
Governance	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Strategy – Risks and Opportunities ***	Limited****	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate Resilience Assessments/ Scenario Analysis	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Transition Plans	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Risk Management	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Scope 1 and 2 Emissions	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Scope 3 Emissions	N/A	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate-related Metrics and Targets	None	Limited	Limited	Reasonable	Reasonable	Reasonable

- e. The international accreditation forum (IAF) and the IAASB have [formalised collaboration](#) to establish a framework for sustainability assurance. Objectives include IAF's commitment to work with IAASB to position the use of IAASB standards in accredited verification activities where appropriate. IAF will also seek agreement related to intellectual property with the International Federation of Accountants (IFAC) to use and refer to IAASB standards. A group of experts from IAF, the International Organization for

Standardization (ISO) and other organizations in the field of conformity assessment recently analyzed ISSA 5000, as well as other supporting standards, to confirm the ability of accreditation bodies to meet their requirements. At a meeting in Italy, the group discussed the potential development of a scheme or standardization document for providing sustainability reporting assurance services. The scheme would incorporate principles introduced by ISSA 5000 and supporting standards, supplemented by elements from the ISO framework.

- f. The IAASB and the IESBA have jointly launched a joint package of standards to enhance trust and transparency in sustainability reporting and assurance. This launch includes video recordings in support of these standards from global leaders from IOSCO, the Securities Exchange Commission (SEC), GRI, A4S and the IAF. In addition, the IAASB has now issued an [Implementation Guide](#) to assist implementation of ISSA 5000. The XRB will need to determine if and or how to adopt these standards in developing its strategy for assurance over sustainability reports, including climate reports.

Recommendation

1. We request feedback from the Board on:
 - a. The developing SPE for 2025/2026
 - b. The updates to the prioritisation schedule to June 2025.
 - c. Other issues impacting the work plan and priorities for the NZAuASB

Domestic Project	2024/25 planned action	Resource	Priority/effort	Key deliverable	Due
Review standard for service performance information	NZAuASB approved at its December meeting. To be gazetted early Feb. Comms plan and support adoption	Available	Medium	Issue standard	Jan 25
ISA (NZ) for LCE	Consultation document issued. Submissions close 27 February	Available	High	ED issued	Oct
Monitor adoption of audit and review of service performance	Monitor developments, hold workshops, and issue guidance as needed. Discuss guidance and discussion paper (DP) developing.	Available	High	Issue guidance and DP	April 25
Value of audit	Monitor audit reform in UK/Aus.	To manage	TBD	TBD	TBD
	Monitor inspection findings expected late Nov/Early Dec. Discuss as part of environmental scanning.	To manage	TBD	Report	Feb
Monitor and comms over mandatory GHG assurance	Monitor developments, hold workshops and issue guidance. Amendments to climate reporting and assurance on scope 3. FAQ on scope 1 and scope 2 for MIS managers	Available	High	Snapshots Insights and FAQs Amendments	Feb Ongoing
	Explore user needs and value of adding to assurance reports Exploring commissioning research on this matter	TBD	TBD	TBD	TBD
Limited versus reasonable assurance	Assist the market understand the spectrum of assurance, what limited assurance means and the value of assurance. Update	Available	High	Animation/video	March
XRB strategy for climate assurance – adoption of ISSA 5000/ISO or something else	Continue to monitor international developments and government policy decisions. Message in PitoPito December	Available	TBD	TBD	TBD
Competency requirements for sustainability assurance	At the August meeting the Board agreed that no further action is needed at this time.	Available	Low	Agreed no action at this time	N/a
Update standard setting policy based on developments in assurance over climate disclosures	Revise EG Au2 and update harmonisation/convergence policy. Discussion pending on approach for sustainability matters	Available	TBD	Updated policy as appropriate	TBD
Māori engagement	Engage proactively to seek Māori views on relevant issues	To manage	TBD	TBD	Ongoing
Digitisation	Standards navigator is live. Compiled standards included	To manage	TBD	TBD	Ongoing
Explore assurance related issues related to He Taura	Monitor developments and if appropriate, consider assurance	To manage	Low	TBD	TBD
Technology	IAASB technology position . To monitor and respond if appropriate	To manage	TBD	TBD	TBD

IAASB

IAASB	2024/25 planned action	Resource	Priority /effort	Key deliverable	Due
Going concern revised standard	IAASB expect to approve in Dec 2024, and issue in March. Issue final updated standard in New Zealand by June 2025. Consider developments	Available	Medium	Standard	June 2025
Public Interest Entity track 2	IAASB to undertake limited consultation in Feb, and approve in June. To discuss need to respond to limited consultation.	Available	Low	Standard	Delay
Vision and roadmap for technology	IAASB approved IAASB technology position . Monitor developments	Available	Medium	TBD	TBD
Reference framework model in relation to audit evidence	Project proposal approved by the IAASB in Dec 2024	Available	Low	Exposure draft	Feb 2026
Performance aspects in relation to responding to assessed risk and analytical procedures	Project proposal approved by the IAASB in Dec 2024	Available	Low	Exposure draft	Feb 2026
Narrow scope amendments from IESBA's use of experts	Expect Project plan and Exposure draft to be approved in March 2025. Consult on proposals	Available	Low	Exposure draft	April
Explore issues on materiality in practice to inform international project to revise materiality standard	IAASB project to commence Jan 2025	Available	Medium	Delay	Delay
Fraud standard (ISA (NZ) 240)	IAASB expect to approve in March 2025 and issue in June. Adopt in New Zealand once issued (expected Sep 2025)	Available	High	Standard	TBD
ISSA 5000 Sustainability	IAASB has approved ISSA 5000. The XRB is still to determine next steps.	Available	Medium	TBD	TBD
ISRE 2410 Interim Review Engagements	IAASB project has commenced supported by XRB and AUASB staff	Available	High	Project proposal	June 2025
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	IAASB membership maintained Participate and lead a discussion at NSS meeting.	Available	High	Meetings	May

IESBA

IESBA	2024/25 planned action	Resource	Priority/effort	Key deliverable	Due date
Sustainability ethics and independence revisions	IESBA expected to approve standard in Dec 2024 and issue in Jan 2025. Monitor developments and determine implications for XRB. To discuss at Feb meeting	Available	High	Update PES 1	June 2025
Use of experts	IESBA expected to approve standard in Dec 2024 and issue in Jan 2025. Monitor developments and determine implications for XRB. To discuss at Feb meeting	Available	High	Update PES 1	June 2025
Collective investment vehicles	Monitor IESBAs project on CIVs, pension funds and investment company complexes – ED expected to be approved March 2025	Available	Low	TBD	TBD
Profession agnostic independence standards for sustainability assurance not in scope of Part 5	TBD	To manage	TBD	TBD	Delay
Post implementation review of non-compliance with laws and regulations (NOCLAR)	Participate in IESBA PIR	To manage	Medium	TBD	Delay
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	Participate in Global roundtables on firm culture and governance Host IESBA members/staff – Channa Wijesinghe from APESB appointed as Deputy Chair of the IESBA Participate and lead a discussion at NSS meeting.	Available	High	TBD	March TBD May



DATE: 18 December 2024

TO: NZAuASB members

FROM: Greg Schollum, IAASB member
Misha Pieters, Technical Advisor to Greg and Director Assurance

SUBJECT: **December 2024 IAASB meeting**

Action: To **NOTE** the update from the IAASB December meeting and **CONSIDER** the areas of high strategic importance arising.

Areas of high strategic importance to the XRB

1. Key areas of strategic importance arising are summarised below. The full meeting report is in the appendix.

Project	Timing	Strategic Priority for XRB
Going Concern	The IAASB has approved the revised standard.	Medium. The effective date of the revisions are for periods beginning on or after 15 December 2026. The combined impact of the two projects on both work effort by auditors and on the auditor's report will be of interest. The revisions require enhanced transparency in a separate section in the auditor's report on going concern and are expected to require enhanced transparency on fraud related matters, for those audits where auditors are reporting using key audit matters.
Fraud	The IAASB is on track to approve the revised standard in March 2025.	
Audit Evidence, Risk Response and Analytical Procedures	The IAASB approved a project plan to revise three standards, as part of an integrated approach.	High. This project encourages auditors' use of technology and is designed to strengthen auditors' work on internal controls, where appropriate. The project will explore the appropriateness of the foundational principle that the auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. The authenticity issue needs to be closely monitored as any change could have significant implications. Exposure drafts are expected to be approved by December 2025.
Public Interest Entity (PIE)	The IAASB approved in principle narrow scope amendments subject to a limited consultation prior	Low. The IAASB agreed to restrict the expansion of differential requirements from listed entities to publicly traded entities and to revisit an expanded approach when there is more information about the uptake by jurisdictions around

	to issue, on the recommendation of the PIOB.	the world of the IESBA's PIE definition. This will have minimal impact in New Zealand. The XRB may consider the need to respond to the limited consultation, which will be issued in February 2025, with a 45 day comment period.
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Appendix: Full report from the IAASB December 2024 meeting in New York

2. The IAASB farewelled six board members in December. There will be four new members from 2025 to implement the monitoring group's recommendations and reduce both, the number of members, and the number of practitioner members. With effect from 2025 the Board will comprise of 16 members, reduced from 18 in 2024.
3. New projects will be operationalised using the staff led model. There will be "project board members" allocated to each project but the use of task forces will be phased out, with the Fraud taskforce the last remaining taskforce in operation. A key focus for the Board's work in 2025 and beyond is on the impact of technology on audits.
4. Greg will continue to support the fraud project, be a project board member on a project to modernise the ISA 500 series (ISA 501, 505 and 530) and on the project to maintain the ISA for LCE, and will also take on a liaison role with the IESBA to continue to enhance collaboration between the two standard setting boards.
5. The IAASB will start work to update its next strategy and work plan in 2025. Also, a formal vote on the withdrawal of ISAE 3410, which was agreed in principle as part of the project on sustainability assurance, is expected in March 2025.

Going Concern

6. The IAASB unanimously approved ISA 570 (Revised 2024), *Going Concern*. Greg is on the Going Concern Task Force. To finalise the standard, the discussions included:
 - Emphasis that the auditor always needs to evaluate management's assessment (even in a low risk context), while the amount of work effort will be scalable dependent on the circumstances.
 - Reference to the adequacy of disclosures in a close call situation, and where no material uncertainty exists, the standard will retain the words "in view of the applicable financial reporting framework".
 - Concluding on whether a material uncertainty exists and the implications for the auditor's report has been challenging to clarify in the standard. The standard now bifurcates the steps:
 - Firstly, focusing on whether the auditor has sufficient appropriate audit evidence to conclude that the use of the going concern basis is appropriate; and
 - Second, to conclude whether a material uncertainty exists, which includes gathering evidence related to management's plans for future actions. Examples include concluding on whether the plans may be sufficient to mitigate the events or conditions of concern, the feasibility of the plans, management's intent and ability to carry out the plans, and whether third parties have the intent or ability to provide the necessary financial support.
 - The illustrative reports include an optional sub-heading to signal where there is no material uncertainty. A footnote makes it clear that this is optional. There was consensus that this is useful signposting under the broad heading of "Going concern" to aid users' understanding.

Implications for the XRB:

At the December NZASB and NZAuASB meetings, the technical boards discussed the interaction between the accounting requirements and the pending revised auditing standard.

In principle, there was support from the NZAuASB for the XRB to develop guidance for management and those charged with governance related to going concern, to issue together with any revisions to the New Zealand auditing standard based on ISA 570 (Revised), if adopted.

Public Interest Entity Track 2

7. The IAASB has agreed not to progress to include the definition of a public interest entity (PIE) in the ISAs at this stage. Based on feedback received, the IAASB is concerned that the proposals would be inoperable globally, based on recent clarifications by the IESBA about use of the mandatory categories of PIE by jurisdictions. The concern relates to instances where jurisdictions have not adopted the IESBA PIE definition or have removed a mandatory PIE category from the definition. The IAASB's approach is to set a global baseline, i.e., the IAASB's position is that there is no ability to assert compliance with ISAs if a jurisdiction has not adopted the PIE definition or has removed a mandatory PIE category from the definition. This differs from the IESBA's approach which allows jurisdictions more flexibility depending on their circumstances.
8. The IAASB discussed the importance of continuing to monitor the uptake of the IESBA's PIE definition globally, to pursue expanding the differential requirements to PIEs when there is an established global baseline of jurisdictions that have adopted the IESBA's PIE definition. Greg recommended that a timeline would be useful to reaffirm this commitment by the IAASB.
9. The PIOB expressed disappointment that the differential requirements had not been expanded to PIEs, rather the IAASB had decided to adopt the term "publicly traded entity" to replace "listed entity" as a small step forward to align with the IESBA. In addition, the PIOB expressed concern that the changes from the proposals set out in the exposure draft had not been re-exposed.
10. The IAASB agreed that it did not expect to receive additional feedback to inform deliberations from that already received, given the difference in approach between the IESBA and the IAASB. However, there was agreement about the importance of clearly communicating the rationale for the IAASB's decision to limit changes to changing references from "listed entity" to "publicly traded entity" at this time.
11. The IAASB unanimously voted to approve the revisions in principle, but will issue a limited Invitation to Comment following the December meeting, to explain the IAASB's rationale for only expanding the application of differential requirements to publicly traded entities and to seek input on an appropriate timeline to assess global adoption of the IESBA's PIE definition. This consultation is expected to be for 45 days. The intent is still to finalise the standard to enable the effective date of the changes to align with the revised ISAs on going concern and fraud.
12. In finalising the wording, the IAASB clarified its intent to encourage firms to apply one or more of the differential requirements to audits of entities other than publicly traded entities, i.e., that the encouragement does not mean that

the firm has to apply all differential requirements to that engagement. This clarification was in response to Greg highlighting concern that it could be interpreted as an “all or nothing” approach. In particular, it is important to continue to encourage the use of key audit matters (KAM) more broadly as this is in the public interest.

Implications for the XRB

The revisions will have little to no impact in New Zealand because the XRB currently extends differential requirements in the auditing standards to FMC reporting entities considered to have higher levels of public accountability (FMC HLPAs). The XRB may consider whether to respond to the limited consultation.

Technology gap analysis

13. The technology gap analysis is a working paper to operationalize the IAASB’s technology position statement. The IAASB discussed an updated version of a gap analysis of the standards to be explored to promote the use of technology by auditors. These include ISQM 1¹, ISA 200², ISA 220³, ISA 315⁴, ISA 330⁵, ISA 500⁶ and 520⁷. This project is being operationalised using the new staff led model.
14. The gap analysis will be published following the March 2025 meeting. It is expected to be a living document, to be updated six monthly as the IAASB continue to monitor developments. The analysis identifies the source of issues, potential next steps (i.e., monitor, develop guidance or standard setting) and the relative priority of issues.
15. The IAASB board members expressed support for the idea of the catalogue and the cross functional capacity to explore the impact of technology and point to possible solutions to continue to explore catalogue provided input to further refine the analysis. The discussion highlighted:
 - The prioritisation of issues. It was noted that a high priority had been given to issues to be addressed in the Audit evidence and risk response project. This was queried as this did not necessarily make it the highest priority of the issues identified in the gap analysis.
 - The importance of remaining open to taking no standard setting action, as appropriate.
 - The need for a rapid response mechanism, e.g., narrow scope amendments, as appropriate.
 - To be mindful of scalability. Many of the examples are tailored to the high end or those at the forefront of technology developments.

¹ ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

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

³ ISA 220 (Revised), Quality Management for an Audit of Financial Statements

⁴ ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement

⁵ ISA 330, The Auditor’s Responses to Assessed Risks

⁶ ISA 500, Audit Evidence

⁷ ISA 520, Analytical Procedures

- That the catalogue of issues will necessarily be fluid. There is the need to ensure things come on and off the list as circumstances change.

Implications for the XRB:

The XRB continues to monitor technology use and related issues in New Zealand as it becomes clearer how the technology position statement will play out in shaping the IAASB's standard setting responses.

Audit evidence and risk response project proposal

16. The IAASB unanimously approved the integrated project proposal to revise three standards: ISA 330, ISA 500 and ISA 520. In summary, this project looks to address two key problems:
 - To enhance auditors' work on internal controls, where appropriate.
 - To clarify the impacts of technology. Currently certain requirements may be a barrier to the use of technology or may result in unclear work effort.
17. The discussion included:
 - The need to enable flexibility, to reflect the importance of exploring and understanding the issues identified and adjusting actions appropriately as the project evolves, while still avoiding project scope creep.
 - To continue to reflect on what issues may be best dealt with through non-authoritative guidance
 - The need to emphasize scalability, as appropriate.
 - Adding an action to explore whether consequential amendments are appropriate to para A24 in ISA 200 that indicates that the auditor may accept records and documents as genuine, unless the auditor has reason to believe the contrary. Given the potential significance of any change to this foundation principle it is our view that a consequential amendment is unlikely to be the appropriate means of making any changes in this area.
18. The PIOB observer stressed the importance of a focus on different sources of information. Given the increasing availability of data, there is a need for the auditor to be open to sources of external data, and that increasingly the audit focus should be more horizontal, gathering external evidence, rather than only relying on evidence gathered within the company.

Implications for the XRB:

The key issues identified in the project plan have been confirmed as issues in practice following consultation with the New Zealand reference group. The XRB may be interested to influence decisions relating to standard setting interventions as this project progresses.

Fraud

19. The IAASB undertook a first full read and discussed remaining issues raised in response to the exposure draft. Key issues discussed included:
 - **Interaction between fraud and non-compliance with laws and regulations:** The discussion reaffirmed the intent that both ISA 240 and ISA 250 apply in all instances where fraud or suspected fraud arises.
 - **Authenticity:** There are polarized views on the auditor's role to question the authenticity of a record or document. As noted above, the extant ISAs

state: “*The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary*”. This is a longstanding foundation principle. An objective of the fraud project is to enhance the application of professional scepticism. The draft requires the auditor to remain alert throughout the audit to fraud risk factors (i.e., in addition to circumstances that may be indicative of fraud or suspected fraud). There is a conditional requirement that is triggered only when conditions arise that cast doubt on the authenticity of a record or document.

The PIOB observer highlighted the importance of this matter, with various views as to whether this principle could be amended as a consequential amendment, or whether this warrants a more fulsome project.

- **Unpredictability:** The discussion confirmed the intent that unpredictability be factored into elements of the engagement as appropriate, not for each procedure each year.
- **Risk Identification and Assessment:** Further consideration was requested by the Fraud taskforce of the practical implications that a significant risk cannot be a financial statement level risk, rather it must be a risk at the assertion level. Questions arise as to what assertion it relates to and whether it is all or some assertions. Overall, the discussion reflected that fraud risks, if pervasive, are both at the financial statement level and the assertion level. However, the consideration of management override of controls further complicates this matter because of how this is dealt with ISA 315 (Revised). The Board requested further clarification of the intent of the requirements in paragraphs 40 and 42 of ISA 240 (Revised), to align with the principles in ISA 315 (Revised), while overlaying a fraud lens.

20. The IAASB is on track for approval in March 2025. Greg is on the Fraud Task Force.

Implications for the XRB:

The key XRB’s submission points have been addressed:

- Concern at scope creep regarding 3rd party fraud has been clarified.
- On balance, the XRB supported the use of the KAM mechanism for communicating fraud related matters. The XRB did not support the requirement to include a statement where there are no key audit matters related to fraud. The proposed requirement in the exposure draft has since been deleted.

Narrow scope amendments: Use of Experts

21. The IESBA approved the new standards on using the work of an experts in December 2024. The IAASB received an update from IESBA staff and discussed the need to continue to ensure interoperability between the IAASB standards and the IESBA standards. In principle, there was support for the IAASB to pursue narrow scope amendments to the IAASB standards to make explicit what is now implicit, and add bridging paragraphs between the ISAs and the new ethical requirements. A project and possibly an exposure draft will be approved at the March 2025 meeting.

Implications for the XRB:

The NZAuASB will discuss IESBA’s Use of Experts standard in February 2025.

Update from GRI

22. Carol Adams and Harold Pauwels gave an update from GRI, including on the use of GRI globally and their current work plan. Carol congratulated the IAASB on the issue of ISSA 5000 and explored the ongoing opportunity to work together, given the importance of assurance over sustainability information. In particular, Carol highlighted the importance of assurance over the identification by entities of the most significant impacts of their activities and she highlighted the links between these impacts and the most significant risks and opportunities required to be reported in accordance with ISSB standards. Carol also noted that she would like to see the expansion of the scope of assurance over the processes of entities to identify the most significant impacts of their activities, which should further enhance the credibility of GRI reporting. There is opportunity for the IAASB and the GRI to work together to raise awareness of the need for assurance over such processes.

Update from ISSB

23. Sue Lloyd updated the IAASB on the adoption of the ISSB standards, confirming good alignment with the EU for climate standards, i.e., ISSB plus more on financed emissions will enable compliance with both EU and ISSB standards. Sue also updated the IAASB on guidance that has been issued or that is in development, notably on transition plan disclosures.
24. The focus of the work plan remains to support implementation of S1 and S2, including research on biodiversity and human capital and to evidence investor interest, and maintenance work to enhance 9 to 12 industry SASB standards. The ISSB's goal is to ensure that investors feel equally confident about sustainability information reported as they do about financial information reported.
25. The discussion focused on connectivity, highlighting that the conceptual framework is a good place to develop the connectivity and explore where the financial statements stop and where sustainability information starts.

Update from IASB

26. Riko Suzuki and Jenifer Minke-Girard provided an update on standards that are effective soon and the upcoming work plan of the IASB. The discussion focused on the connectivity between financial statements and sustainability information. Financial statements take a balance sheet/income statement lens, while the sustainability information focuses on risks and opportunities. These are complimentary sets of information, with some overlap, to provide relevant information to users i.e., information about the effects of sustainability related risks and opportunities on the entity's assets, liabilities, equity, income and expenditure.
27. There is also cross collaboration between the IASB and the ISSB on digital reporting. This is on the IAASB's reserve projects list for 2024-2027, with further opportunity for collaboration between all three international boards (IASB, ISSB and IAASB).

NZAuASB Board Meeting Summary Paper

Meeting date: 12 February 2025
Subject: IESBA Update
Date: 29 January 2025
Prepared By: Lisa Thomas and Karen Tipper

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

1. To UPDATE the Board from the staff review of the IESBA's December 2024 meeting and to DISCUSS what issues to raise at the upcoming roundtable event for the Firm Culture and Governance project.

December IESBA agenda

2. The key agenda items covered at the IESBA's December meeting included:
 - a. Sustainability and Use of Experts (Refer to agenda items 3 and 4)
 - b. Firm Culture and Governance
 - c. Adoption and Implementation Working Group
 - d. PIE Rollout
 - e. Mid-cycle Strategy Review
3. The main topic that we want to focus on in this paper is Firm culture and Governance and the points that we want to raise when we attend the roundtable on this subject in Melbourne in March. Updates on other topics discussed at the meeting are included in the Appendix to this paper.

Firm Culture and Governance

Background

4. An increasing number of high-profile cases of unethical behaviour in recent years has led to concerns that the unethical behaviour within firms and networks could impact the functioning of capital markets, the tax system and economies more broadly. This topic is considered to be strategically important to New Zealand, and we have seen the impact of ethical breaches following the senate inquiry into ethical behaviour in Australia.
5. Due to these significant public interest issues the IESBA established a working group in March 2024 and Channa Wijesinghe, Deputy Chair of the IESBA and working group chair, spoke at the April NZAuASB Board meeting and outlined the project objectives. These were to:
 - a. Gather an understanding of culture and governance and their impact on compliance with ethics and independence requirements in accounting firms and, where applicable, their networks ("firms");

- b. Review the extant provisions on organisational and firm culture in the IESBA Code and consider whether the Code should be further strengthened to reinforce a robust culture of ethical behaviour within firms;
 - c. Raise awareness of the issues relating to, and the importance of, governance and ethical culture within firms through outreach activities; and
 - d. Develop a report and recommendations to the IESBA.
- 6. A [final report](#) was issued in January 2025 and emphasised that fostering a strong ethical culture not only mitigates risks of unethical behaviour but also strengthens public trust, enhances firms' reputations, and reinforces the profession's public interest responsibilities.
- 7. The report recommended commencing a project with 2 workstreams in 2025 being:
 - I. The development of a new Standard to establish a firm culture and governance framework that embeds ethical values and establishes a strong ethical culture. The new Standard is intended to be principles-based, scalable and applicable across all service lines of the firm.
 - II. The development of non-authoritative material covering key topics to complement the work of the standard setting stream and guide firms in implementing ethical practices.
- 8. As part of its information gathering the IESBA considered existing frameworks including the International Standard on Quality Management ([PES 3](#)). Under this framework a firm must demonstrate a commitment to quality through a firm-wide culture that recognises the firm's role in serving the public interest (governance and leadership component, paragraph 28(a)). The need to adhere to relevant ethical standards including independence is also addressed in PES 3. Therefore, the IESBA noted the importance to coordinate closely with the IAASB to ensure that any new provisions in the Code complement the requirements of PES 3.

Matters to Consider

- 9. To help inform both workstreams, a series of online and in person roundtable events will be held in March and April 2025. An in-person event will be held in Melbourne on 20 March. The XRB plans to participate in these discussions.
- 10. We anticipate that the following areas will be discussed at the in-person events:
 - a. Leaders' commitment and responsibility for the promotion and monitoring of ethical values and behaviour within the firm.
 - b. A firm-wide governance framework that supports and promotes ethical behaviour and includes:
 - i. An accountability mechanism that is embedded throughout the firm and applicable to all partners and staff
 - ii. Input by independent persons (such as independent non-executives) promoting the firm's commitment to its ethical values and its responsibility to act in the public interest
 - iii. Performance management that incentivises ethical behaviour, including rewards and recognition
 - iv. Being transparent to regulators and other stakeholders, including the public, about its ethical performance
 - v. The promotion and facilitation of a culture of open discussion and challenge

- vi. Education and training programmes that highlight the importance of ethical behaviour
 - vii. Mechanisms to monitor and improve the ethical performance of a firm.
11. We believe this is a strategically important project for New Zealand as it intends to provide a firm-wide framework to support ethical behaviour.

Potential areas to Explore at the roundtable

12. XRB staff support this initiative and recommend that we address the following areas at the roundtable:
- a. Support for the project and acknowledgement of its importance
 - b. The interaction between PES 3 (ISQM 1) and this project as well as coordination with the IAASB and implementation of the final proposals.
 - c. The expectations on the amount of work/evidence needed to illustrate compliance with the framework and the associated resource impact/cost of these expectations.
 - d. The expectations of monitoring compliance with this framework
 - e. Applicability considerations and whether this is intended to apply to all employees within a firm irrespective of whether they are professional accountants.

Recommendations

13. We recommend that the Board NOTES the update on the project and DISCUSSES key points that they would like to be raised at the upcoming roundtable event in Melbourne.

Appendix – Other Topics covered in the December IESBA meeting

Adoption and Implementation Working Group

1. The terms of reference and action plan for a new adoption and implementation working group were approved. This included the plan for the launch of the new code for sustainability assurance practitioners and the preparation of implementation material for these sustainability revisions and the use of experts' revisions.

Implications for the XRB:

XRB staff will monitor the development and outcomes from this group

Mid-cycle Strategy Review

2. The IESBA was provided with a mid-cycle update on the IESBA Strategy and Work Plan 2024-2027 and approved its workplan for 2025 – 2027.
3. Three new workstreams will be prioritised from Q3 2025. These are:
 - profession-agnostic independence standards for sustainability assurance, not within the scope of part 5, under Part 4B of the Code. This project is intended to ensure that all independence standards for standards are developed on a profession agnostic basis.
 - post-implementation review of its NOCLAR® standard to identify any key issues regarding understandability and application of the provisions, and
 - information gathering on the role of chief financial officers (CFOs) and other senior professional accountants in business. This intends to identify and understand ethical issues and challenges faced by these roles and consider whether parts 1 and 2 of the Code need to be enhanced. The XRB's current mandate does not extend to accountants in business as it is restricted to a code of ethics for auditing and assurance.

Implications for the XRB:

XRB staff will monitor and provide updates to the NZAuASB on these new projects as relevant to the XRB.

Collective Investment Vehicle Project

4. This was last discussed at the September meeting where the IESBA raised that there was a significant risk that auditors would not apply the conceptual framework in a consistent manner in relation to unrelated third parties that undertake significant management responsibilities on behalf of an investment scheme. The IESBA intends to take a consultation document to its March meeting.

Implications for the XRB:

XRB will continue to monitor this and will update the NZAuASB at the April Board meeting.

NZAuASB Board Meeting Summary Paper

Meeting date: 12 February 2025
Subject: IESBA Sustainability Standards
Date: 30 January 2025
Prepared By: Anna Herlender

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

1. The objective of this agenda item is for the Board to:
 - RECEIVE an update on the new International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) approved by the IESBA
 - PROVIDE input for next steps for New Zealand.

Background

2. The IESBA approved the IESSA in December. The PIOB certified the standard in January and the standard has now been issued ([IESSA - Final Pronouncement.pdf](#)).
3. The IESBA explains in the [Basis for Conclusion](#) that the IESSA was developed to support transparent, relevant and trustworthy sustainability reporting. The ethics (including independence) standards were developed to be:
 - Equivalent to the same standards that apply to audits of financial statements
 - Understood and applied by all sustainability assurance practitioners
 - Framework-neutral.
4. The next agenda item includes a summary of the changes in the structure of the requirements between the ED and the final standard and information about what these changes relate to.
5. The Board considered the Exposure Draft when it was released in January 2004 and provided comment to the IESBA in the [submission letter](#) in May 2024.
6. Our outreach events, to inform the submission, included two focused group meetings with practitioners from various backgrounds. Our submission was also informed by our previous domestic consultation on GHG assurance engagements and views heard during hosting Mark Babington in New Zealand. Overall, the feedback was positive with agreement of the importance of high ethical and independence standards. The concerns raised related to length of the proposal, the technical language included, and the complexity of navigation between various requirements.

Matters to Consider

7. The accompanying Issues Paper analyses how the XRB's comments have been addressed in the final standard and updates the Board on other key changes made by the IESBA in finalising the standard. Overall, IESBA maintained the structure of the requirements as in the Exposure Draft which was considered by the Board complex and lengthy. However, some requirements were

restructured, for example for groups and value chains, to decrease the level of complexity. The final version is also more aligned with ISSA 5000 issued by IAASB. Finally, the IESBA worked with non-accounting organisations, including the International Accreditation Forum (IAF), to increase the uptake of the standards by other sustainability assurance practitioners. In 2024 the IAF and the IESBA announced a [strategic partnership](#), including a collaboration on how to include the IESSA as part of relevant accredited verification activities.

8. The accompanying Issues Paper also identifies possible next steps for New Zealand regarding adoption of the IESSA in New Zealand, with reference to a cost / benefit analysis. Staff has identified the following options:
 - Option 1: adopt the IESSA
 - Option 2: adopt the version of the IESSA with additional requirements relevant to New Zealand
 - Option 3: adopt the version of the IESSA with less requirements and less complexity
 - Option 4: include relevant parts from the IESSA into our domestic standard on GHG assurance
 - Option 5: develop a new domestic standard relevant to New Zealand context.
 - Option 6: do nothing.

Recommendations

9. We recommend that the Board adopts the IESSA as outlined in Option 1 in the Issues Paper and provides guidance on further matters to consider by the staff.

Subject: IESBA Sustainability Standard Issues Paper

1. This Issues Paper includes:
 - (a) information for the Board about the International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) included in a new Part 5 to the Code of Ethics including:
 - i. how key issues raised in the XRB's submission were addressed by the IESBA,
 - ii. other key changes from the Exposure Draft (ED)
 - (b) An outline of possible options and next steps for the XRB to explore.

Key issues raised in the XRB's submission

2. The XRB's submission included the following key points:
 - (c) Concerns relating to the structure of the proposals and that they may not look and feel profession agnostic, because the "lift and shift" approach resulted in a replication of material from Part 4A of the Code (part 4A relates to independence provisions for auditors of financial statements).
 - (d) The proposals were long and complex, in particular in relation to requirements on groups, value chain, another practitioner and non-assurance services;
 - (e) Competence should be given equal importance to independence; and more focus on local considerations is required.
3. The structure of the standard has not changed after the consultation. It mirrors the language and requirements relating to audits of financial statements. As Mark Babington explained during his visit to New Zealand in November 2023, this mirroring is intentional to avoid the requirements being interpreted differently for financial audits and for sustainability assurance. The IESBA recognised that some requirements are complex and has committed to issuing additional guidance, for example in relation to groups and value chain.
4. The IESBA has been working with other professions to bring in non-accounting assurance practitioners. The International Accreditation Forum (IAF) [announced](#) that IAF will stipulate to national accreditation bodies that IEISSA should be used when accrediting and authorizing conformity assessment bodies to carry out assurance work on corporate sustainability disclosures.
5. The IESBA's announcement of the final standards has been also accompanied with guidance materials (including: [Technical overview](#)) that include considerations and explanations relevant to non-accountants.
6. Although the IESBA has not increased the focus on competence (to the extent requested in the NZAuASB submission), the consideration of "contextual" and location-specific awareness, as suggested by the XRB submission, has been included in the final wording. This new wording is included in the section on exercising professional judgement:

"...application of knowledge of certain location-specific environmental, social, economic, cultural or other sustainability-related issues might be relevant when performing sustainability assurance engagements." (5120.5 A4)

7. Other matters raised by the XRB and not addressed relate to:
 - Clarifications on scope and title – the XRB raised a concern that the scope is difficult to navigate and that the title does not clearly communicate that the standard relates to assurance engagements over sustainability information reported by entities
 - Consideration of broader relationships and interests than those traditionally recognized for audits of financial statements.
8. Reflecting on the final standard, staff explore possible options for New Zealand below. It is not unexpected that concerns around the drafting approach and structure of IESSA were not adjusted by the IESBA. The Board will need to consider whether the language and structure approved by the IESBA is appropriate for adoption in New Zealand. Additionally, where the IESBA has not addressed other XRB's recommendations, the Board could consider if additional changes would be beneficial for New Zealand circumstances. For example, concerns around the title, and requests to add more about competence or include further examples of relationships and interests are matters that we could add in New Zealand. The options are explored in more detail in a later section of this paper.

Key changes from the Exposure Draft

9. Below are the main changes that the IESBA made in finalising the standard, following feedback on the ED and to what extent they respond to the XRB's submission.

Definition of sustainability information

10. The proposed definition in the glossary in ED was intentionally broad and intended to be perennial and interoperable with different reporting and assurance standards.
11. Respondents to the ED, including the XRB, called for the IESBA to align these definitions with the International Standard on Sustainability Assurance 5000 (ISSA 5000) prepared by International Auditing and Assurance Standards Board (IAASB), especially when both proposed standards used the same terms.
12. Recognizing the importance of interoperability between the IESSA and ISSA 5000, the IESBA and the IAASB agreed with the submissions and have defined the terms "sustainability information" and "sustainability matters" in the same way. As a result, the IESBA and IAASB are now fully aligned on these definitions.

Responding to non-compliance with laws and regulations (NOCLAR)

13. The ED proposed to require the sustainability assurance practitioner (SAP) and the auditor to consider communicating NOCLAR to each other. This proposed two-way communication recognises that the sustainability related requirements should be equivalent to audit requirements.
14. The XRB supported the proposed requirements and asked for additional guidance to cover:
 - timing issues,
 - sustainability related examples,
 - scenarios explaining how NOCLAR should be considered in relation to specific reporting frameworks' and
 - the thought process that the sustainability assurance practitioner should follow when dealing with NOCLAR.

15. The IESBA received mixed feedback regarding NOCLAR requirements. As NOCLAR will soon be subject of a post-implementation review, the IESBA has decided not to change the requirements for sustainability assurance. Therefore, the final NOCLAR requirements mirror the current requirements in the extant Code regarding communication between an auditor and an assurance practitioner:
 - SAP and auditor are required to communicate NOCLAR (as opposed to being required to consider communication) to each other, if the SAP and the auditor belong to the same firm
 - SAP and auditor shall consider communication to each other if they belong to the same network or different firms or networks.
16. The IESBA considers that if any changes are required to this approach based on the post-implementation review, the NOCLAR requirements set out in Part 2, Part 3 and Part 5 would be revisited in a holistic way.
17. Recognising that the XRB's request for additional guidance has not been addressed, depending on which of the below options the Board recommends, we may consider adding more guidance addressing the XRB's specific concerns.

Groups, value chain, use of another practitioner

18. The XRB's submission expressed concern about the complexity of the proposed requirements and lack of interoperability with ISSA 5000. The XRB recommended that the requirements either be simplified or that the section on groups and value chain be removed. At the time of the submission, groups were not addressed in ED ISSA 5000 –however in finalising their standard, the IAASB included groups. This was responsive to feedback that requirements related to groups are especially relevant for sustainability engagements.
19. The IESBA considers that it is important to retain the independence requirements for groups. They acknowledged that the proposed standards for groups might appear complex, especially for first-time application. To make the requirements clearer and reduce complexity, the IESBA has:
 - restructured the parts of the IESSA relating to groups, value chain and use of other practitioner,
 - commissioned the IESBA staff to prepare implementation support materials,
 - delayed the effective date for the provisions relating to the value chain to July 2028 (18 months after the effective date for the remaining provisions of Part 5).
20. To ensure interoperability with the IAASB's standards, the terms and definitions relating to groups have been aligned with ISSA 5000. This has resulted in the introduction of two types of components. The distinction between these components is based on the reporting boundary:
 - group component – “component required to be included in the reporting entity's group financial statements”
 - value chain component – “a component within the reporting entity's value chain that is not included in the group financial statements.”
21. Independence requirements for group components mirror the current group requirements for audit of financial statements. This is to ensure equivalency between audit and sustainability independence requirements and avoid different interpretations. The independence requirements include:
 - if the assurance is performed by the firm or by a component practitioner within the network firm - independence of the firm and network from the client is required

- if the assurance is performed by a component practitioner outside of the network – independence of the component practitioner network from the group client and entity on which group firm is reporting is required and additionally independence of the network from the client is required.
22. Independence requirements for value chain components are new for the Code. Comparing to group requirements, a pragmatic approach has been taken, and independence is not required by the network but only by the firm or component practitioner performing the work.
 23. We have not considered independence requirements in relation to group components and value chain when developing our domestic assurance standard on GHG emissions disclosures. Depending on the option we pursue, we might need to consider whether it is appropriate to add requirements in order to allow a pragmatic approach for independence considerations relating to value chain.

Non-Assurance Services (NAS)

24. The XRB's submission encouraged the IESBA to adopt a principles-based approach for NAS at this stage, as opposed to including lengthy sections with the types of services currently included in part 4A. Based on our experience in New Zealand, where we included the self-review threat prohibition into our domestic standard on GHG emissions (setting higher bar than the extant Code), we recognised that this is an important requirement in the sustainability assurance context. Further drawing on our experience, the submission cautioned the IESBA that the self-review threat might not be well understood by all practitioners, therefore we recommended a transitional provision and non-authoritative guidance on the application of NAS.
25. The IESBA believed that it would not be in line with the premise of equivalency if Part 5 did not take the same approach with respect to the provision of NAS as Part 4A. The IESBA recognized that certain types of NAS, e.g. tax services, were more likely to impact the financial statements; however, depending on the facts and circumstances, these NAS could also impact the sustainability information. The IESBA considered that addressing a different list of NAS in Part 5 could give the impression that it may be possible to provide NAS to a sustainability assurance client that are not included in that list without regard to whether the NAS would affect the information assured by the practitioner.
26. The IESBA also clarified that the provision of NAS could only create threats to independence if it impacts the sustainability information on which the firm expresses an opinion.
27. The IESBA has added a transitional provision applicable to NAS engagements. This is similar to the transitional provision that was applicable when NAS was added to the Code in April 2021. It allows a firm to continue to provide NAS services for engagements that were entered into before the IESSA becomes effective. In response to feedback from the PIOB, to minimise the potential for misuse of the transitional provision, the IESBA has limited the period of its applicability. The transitional provision allows firms to continue the NAS engagement under the original engagement terms for one reporting cycle only. This is similar to the approach that we took in New Zealand when developing NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*.
28. While the level of details and examples might not be the outcome we recommended in our submission, we recognise that the principles relating to NAS are important and relevant to sustainability assurance. In New Zealand we already adopted self-review threat and prohibition on assuming management responsibilities as they relate to financial statements audits (that is from Part 4A of the Code) in NZ SAE 1.

Fees

29. The XRB's submission raised concerns about the complexity and prescriptiveness of this section.
30. The IESBA maintained most of the proposed requirements in the final standard. The IESBA determined that since the same independence standards apply to both audit and sustainability assurance engagements in Part 5, the fees from the sustainability assurance engagements within the scope of Part 5 do not impact the level of threats created by the proportion of fees for services other than audit to audit fee. The application material in part 4A was adjusted accordingly.
31. The IESBA considered the comments raised regarding the disclosure of the sustainability assurance fees by the client and the potential challenges SAPs might face to meet the obligations for fee disclosure. The IESBA considered that there was a greater interest in stakeholders receiving the same information about SAP's independence as for the audit of the financial statements. Therefore, the IESBA agreed to retain the equivalence between the approach for fee disclosure with respect to audit fees and the approach with respect to sustainability assurance fees.
32. In New Zealand, climate reporting entities are not required to disclose fees for assurance of GHG emissions disclosures or voluntary assurance of climate statements. Reporting standards require Tier 1 and Tier 2 entities (including public interest entities (PIEs)) to include information about fees for other assurance services including sustainability assurance in their annual reports if the services are provided by their statutory auditor. However, if the assurance is not performed by their auditor this information is not required.
33. Staff raised this in initial discussions with the NZASB board and accounting and sustainability staff when the ED was issued. If the IESSA were to be adopted, in accordance with the requirement of the Part 5, the disclosure of the sustainability assurance fee will need to be discussed across the XRB.

Effective date and transitional provision

34. The effective date of the standard is aligned with ISSA 5000 – for periods beginning on or after 15 December 2026 with early adoption permitted and encouraged.
35. The provisions relating to value chain are effective for periods beginning on or after 1 July 2028, until this date the conceptual framework should be applied. Additionally, if a sustainability assurance practitioner intends to rely on assurance work of another practitioner in relation to a value chain component, the assurance practitioner is permitted to rely on a statement of independence in accordance with Part 4B or other professional requirements relating to independence. If a sustainability assurance practitioner decided to use the transitional provisions related to the value chain, this fact needs to be publicly disclosed.
36. The IESBA also introduced transitional provisions:
 - NAS (as explained above)
 - On long association – firms need to take into account the time served on the assurance client by the key sustainability assurance leader before the firm begins providing services in accordance with IESSA. This applies also to the engagements before 15 December 2026.
37. In the New Zealand context, we did not consider transitional provisions in relation to value chain and long association for the purpose of NZ SAE 1. Depending on the option recommended by the Board, we will need to consider whether relevant revisions to NZ SAE 1 would be appropriate.

Options for Next Steps for New Zealand

38. The XRB has a legal mandate to issue ethics standard for accountants. Section 12(b) of the Financial Reporting Act 2023 states:

“The Board has the following functions: ...

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

(i) the purposes of the Auditor Regulation Act 2011 or any other enactment that requires a person to comply with those standards; or

(ii) the purposes of any rules or codes of ethics of an association of accountants where those rules or codes require the association’s members to comply with those standards;

(iii) ...”

39. New Zealand members of Chartered Accountants Australia and New Zealand (CA ANZ) need to follow the NZICA Code of Ethics. The NZICA Code of ethics does not include independence requirements for assurance practitioners (Parts 4A and 4B) and instead the Code refers assurance practitioners to the XRB’s Code of Ethics. CA ANZ has an obligation under their membership with IFAC to require their members to comply with the ethics and independence standards as stringent as IESBA Code of Ethics.
40. The current XRB’s policy is to adopt international standards and harmonise standards with Australia. The NZAuASB’s existing Policy and Process for International Conformance and Harmonisation of Standards sets out a key strategic objective set out by the XRB Board for the NZAuASB:
- “to adopt international auditing and assurance standards, including the professional and ethical standards for assurance practitioners... 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. “*
41. The Harmonisation policy was established in the context of financial statement auditors. Sustainability assurance is a context that was not considered when the mandate was set. The XRB still needs to consider strategic objectives in relation to sustainability related assurance standards, especially if they are going to be used by assurance practitioners from other professions.
42. The IESSA has been endorsed by IOSCO. IOSCO has called on members to consider ways in which they might apply or otherwise be informed by the IESSA when considering ethics and independence requirements for assurance.
43. The International Accreditation Forum (IAF) announced that IAF will stipulate to national accreditation bodies that IESSA should be used when accrediting and authorizing conformity assessment bodies to carry out assurance work on corporate sustainability disclosures. If New Zealand and Australian accreditation authority Joint Accreditation System of Australia and New Zealand (JAS ANZ)¹ recognises IESSA as the basis of their ethical and independence requirements, then ISO practitioners accredited by JAS ANZ will also need to apply IESSA. Staff have arranged to meet with JAS ANZ for confirmation of their understanding of this.

¹ JAS ANZ accredits and specify the criteria for the bodies that certify or inspect organisations’ management systems, products, services or people.

44. Australia will be considering the IESSA for adoption. The Accounting Professional & Ethical Standards Board (APESB) issues ethical standards for professional accountants that are consistent with those issued by the IESBA.
45. Considering the XRB's legal mandate, harmonisation policy, the wide international endorsement of IESSA, and the final wording of the IESSA in the light of the XRB submission, we have considered the following options for next steps:
- Option 1: adopt the IESSA as published
 - Option 2: adopt the version of the IESSA with additional NZ material
 - Option 3: adopt the version of the IESSA with less requirements and less complexity
 - Option 4: include relevant parts from the IESSA into our current domestic standard on GHG assurance
 - Option 5: develop a new domestic standard on sustainability assurance relevant to New Zealand context.
 - Option 6: do nothing.
46. Given the Board's previous comments about reducing complexity, we consider that options 3-5 would likely result in standards that have lesser requirements than the IESSA. In all these options we have identified a reputational risk for the XRB. If the XRB does not adopt IESSA, CA ANZ may need to consider alternative approaches to require their members to follow ethical rules as stringent as IESSA. The XRB might lose relevance, if the accounting professional body and the ISO accreditation body require their members to follow IESSA in New Zealand regardless of the XRB decisions.

Option 1 Adopt the IESSA in New Zealand

47. The first option to consider would be to adopt the IESSA in New Zealand in the form as it was released by the IESBA.

Benefits

48. Adoption of the IESSA will ensure XRB standards:
- Are aligned with international reputable ethical standards
 - Contain a high bar for ethics and independence for sustainability assurance that is as demanding as the IESBA Code of Ethics.
49. Aligning with international standards is highly supported by audit firms (this is consistent with feedback received from previous consultations on NZ SAE 1, sustainability assurance consultation and the exposure draft on IESSA). The structure of the IESSA is consistent with the extant Code and audit firms have confirmed that they believe that this may assist to operationalise this as they are familiar with the existing structure.
50. If JAS ANZ requires IESSA standards for accreditation purposes, the same set of standards will be applied by assurance practitioners from accounting profession and from ISO background.

Disadvantages and potential cost impact

51. The IESSA is lengthy and complex. The International Federation of Accountants (IFAC) [acknowledged](#) that the complexity could lead to practicability challenges in particular with value chain

considerations. This may mean that there are significant implementation challenges and costs for small and medium sized practices.

52. Adopting the IESSA into the XRB's Code of Ethics in the current form would also mean that some concerns raised by the XRB are not addressed, therefore could be perceived as not completely fit for New Zealand.

Option 2 Adopt the version of the IESSA with additional requirements relevant to New Zealand

53. The second option would be to adopt the IESSA and add additional material that would respond to the XRB's concerns and would be fit for New Zealand context.

Benefits

54. Adding additional requirements and application material to the international version of the IESSA will allow the standard:
 - To address the XRB's concerns included in the submission that have not been addressed by the IESBA (for example competency)
 - Be still as demanding as the international version of the IESSA.

Disadvantages and potential cost impact

55. However, adding more material to the IESSA will result in:
 - A longer and even more complex standard, which would contradict the XRB's points in its submission on complexity and length of the requirements.
 - More content in the standard would lead to higher implementation costs by assurance practitioners
 - Additional cost and time spent on developing additional material, including costs of a possible additional domestic consultation and resulting delays with adoption of IESSA in New Zealand.
 - The possibility that assurance practitioners from the accounting profession will need to implement more requirements that assurance practitioners belonging to ISO accredited bodies as the collaboration agreement is at the international level (not equal playing field).

Option 3 Adopt a version of the IESSA with less requirements and less complexity

56. The XRB's submission highlighted areas that are too long and too prescriptive for the purpose of the current state of the sustainability reporting and assurance. Therefore, another option that would be consistent with this submission would be to use the IESSA standard as the basis for principles-based standard with reduced level of detail.

Benefits

57. A principles-based simplified standard would result in:
 - A standard that would be fit for purpose of the current emerging stage of development of sustainability reporting and assurance
 - Lower implementation costs for assurance practitioners.

Disadvantages and potential cost impact

58. The disadvantages and costs would include:

- The standard could be considered not being as demanding as the IESSA, which would lead to reputational risk
- Lack of harmonisation with international standards
- Additional cost and time spent on developing simplified standard, including costs of additional domestic consultation and resulting delays within New Zealand.
- assurance practitioners from accounting profession may have ethical requirements less demanding than the assurance practitioners belonging to ISO accredited bodies (not equal playing field).

Option 4 Include relevant parts from the IESSA into our domestic standard on GHG assurance

59. In New Zealand, currently the only mandatory sustainability related assurance is on GHG emission disclosures in climate statements. Therefore, one of the options would be to adjust NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures* to include requirements from the IESSA that are relevant to these assurance engagements.

Benefits

60. The benefits of this option would be to have a standard adjusted to New Zealand mandatory regime. NZ SAE 1 includes ethical principles, and this option would allow us to align at a principles level with the international standard.

Disadvantages and potential cost impact

61. Disadvantages and costs will include:

- The standard could be considered not being as demanding as the IESSA, which would lead to reputational risk
- Lack of harmonisation with international standards.
- Additional cost and time spend on revising NZ SAE 1.
- Lack of ethics standard issued by the XRB for sustainability engagements (other than mandatory GHG assurance).

Option 5 Develop a new domestic standard

62. This option would be to develop our own domestic standard for sustainability assurance engagements.

Benefits

63. The benefits of this option would be a standard fit for purpose for New Zealand with the right balance of principles and details as would be considered appropriate by the Board.

Disadvantages and potential cost impact

64. Disadvantages and costs will include:

- Not having the same level of details as in the IESSA would risk that the standard could be considered not being as demanding as the IESSA. This could lead to a reputational risk.

- Lack of harmonisation with international standards.
- Additional implementation costs for practitioners if they need to follow IESSA to maintain their membership in CA ANZ or to maintain their ISO accreditation and the XRB domestic standard to be able to comply with NZ SAE 1.
- Additional implementation costs for practitioners if they network firms require compliance with IESSA for consistency
- Additional implementation costs for practitioners who will be component practitioners of international group clients where the assurance will be performed under IESSA.

Option 6 Do nothing

65. Another option would be not to take any further steps at this stage, which means not to adopt the IESSA and not to adjust the current standards or developing a new one. Under this option, the assurance practitioners would follow the current XRB standards and any standards required by other parties, for example CA ANZ or JAS ANZ.

Benefits

66. The benefit of doing nothing would be that there is no additional cost caused by the XRB standards.

Disadvantages and potential cost impact

67. The disadvantages would include:
- Reputational risk of not having a robust sustainability standard issued by the XRB. This would include losing relevance as standards based on IESSA are required by professional bodies and applied by assurance practitioners anyway.
 - Lack of harmonisation of the XRB standards with international standards.

Recommendation

68. Staff recommends the Board considers adopting IESSA as presented in Option 1. This option minimises reputational risk and allows New Zealand to be aligned with international developments.

69. **We seek the Board's views on the presented options and what next steps should be taken.**

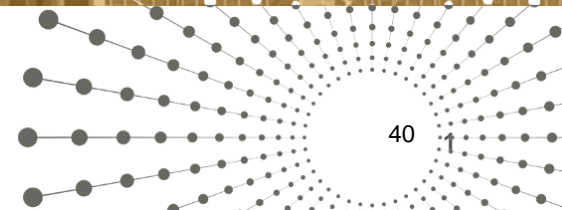
Summary of Requirments

Ethics Standard for Sustainability Assurance

Summary of the IESSA



January 2025





How the IESSA is structured?

The IESSA (Part 5) has been developed on the premise that sustainability assurance practitioners should apply the same high bar of ethical and independence requirements as auditors of financial statements.

The proposals are in a new separate part to the Code Part 5. Part 5 stands alone for assurance practitioners that are not professional accountants.

The proposed ethical and independence requirements for sustainability assurance engagements are structured using a building block structure, covering the fundamental principles and conceptual framework, layering the ethical requirements and then the independence requirements.

For our stakeholders less familiar with the Code (PES 1), the diagram on the following page is intended to assist you navigate the requirements. For our stakeholders that are familiar with PES 1, this structure and language will be familiar. We have included the structure of the ED on the next page and the changes between the ED and the final standard in the following page. The main change in structure between the ED and the final standard is to include the value chain independence considerations in the groups section and delete the “knows or has reason to believe” principle to assess independence when the firm intends to use the work of a SAP.





Summary on a Page (ED)

Ethics and Independence Standards for Sustainability Assurance

International Ethics Standards
Applicable to sustainability assurance engagements and professional services

International Independence Standards.
Some only apply to Public interest Entities (PIE)

5110
Fundamental Principles

5120
Conceptual Framework

5200
Pressure to Breach

5300
Applying the Conceptual Framework to Ethics

Conflicts of interest

Objectivity (EQR and reviewers)

Custody of Client Assets

Tax Planning Services (NEW)

Professional Appointments

Fees

Non-compliance with laws and regs (NOCLAR)

Using the Work of an Expert (NEW)

Inducements

5400 - 5700
Applying the Conceptual Framework to Independence

Group engagements

Gifts /hospitality

Family and Personal Relationship

Temporary assignments

Another Practitioner involved (NEW)

Litigation

Recent service with the client

Long Association

Loans and Guarantees

Serving as director or officer

Non-Assurance Services

Assurance work at Value Chain (NEW)

Financial Interest

Employment

Interest, relationship in value chain entities* (NEW)

Fees

Compensation

Business Relationship



Summary on a Page (ED)

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Fees

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Using the Work of an Expert (NEW)

Inducements

5400 - 5700
Applying the Conceptual Framework to Independence

Group engagements (including value chain)

Gifts /hospitality

Family and Personal Relationship

Temporary assignments

Another Practitioner involved

Litigation

Recent service with the client

Long Association

~~Assurance work at Value Chain~~

Loans and Guarantees

Serving as director or officer

Non-Assurance Services

Fees

Financial Interest

Employment

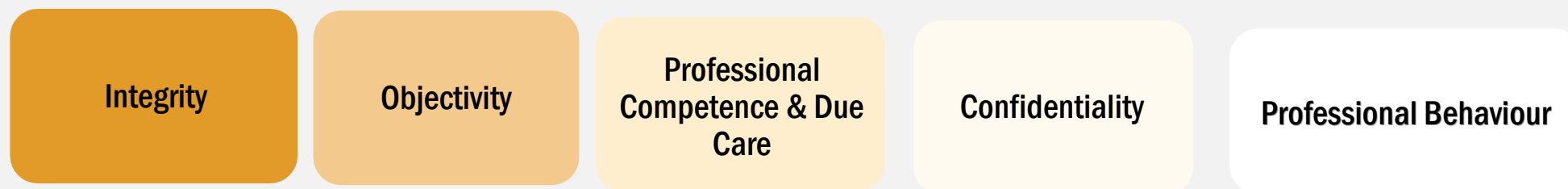
~~Interest, relationship in value chain entities*~~

Compensation

Business Relationship

Fundamental Principles and Conceptual Framework

Sections 5110 -5120 set out the ethical principles that drive the expected behaviour of sustainability assurance practitioners. These fundamental principles are identical to those in the extant Code as shown below



Sustainability assurance practitioners may face situations which threaten their ability to comply with these fundamental principles. The proposals include a conceptual framework, as illustrated in the diagram, that requires practitioners to identify, evaluate and address threats which may impact their ability to comply with the fundamental principles.

The example situations included in the proposals are not intended to cover all situations that may cause threats to the fundamental principles. As such, when applying the conceptual framework all practitioners need to have an enquiring mind and exercise their professional judgement.



Applying the Conceptual Framework to Ethics

Section 5300 provides examples of how the conceptual framework should be applied to specific ethical situations that might create threats to the fundamental principles and what practitioners should do when this situation takes place.

It does not describe all facts and circumstances, professional activities, interests and relationships that could be encountered by practitioners and that might create threats to fundamental principles. The conceptual framework requires practitioners to be alert for such facts and circumstances.

New Sections

Included in this section are two considerations that do not appear in PES 1: tax planning – addressing potential threats to evaluate when a sustainability assurance practitioner provides tax planning services to a sustainability assurance client and use of experts.

Ethical requirements when providing tax planning services are in the newest additions to the Code for professional accountants. As Part 5 mirrors the other parts of the Code, the requirements have been mirrored for sustainability assurance practitioners.³

Use of experts is included in a separate standard.

³ The adoption of tax planning services in Part 3 is outside the mandate of the XRB.

Non-compliance with Laws and Regulations

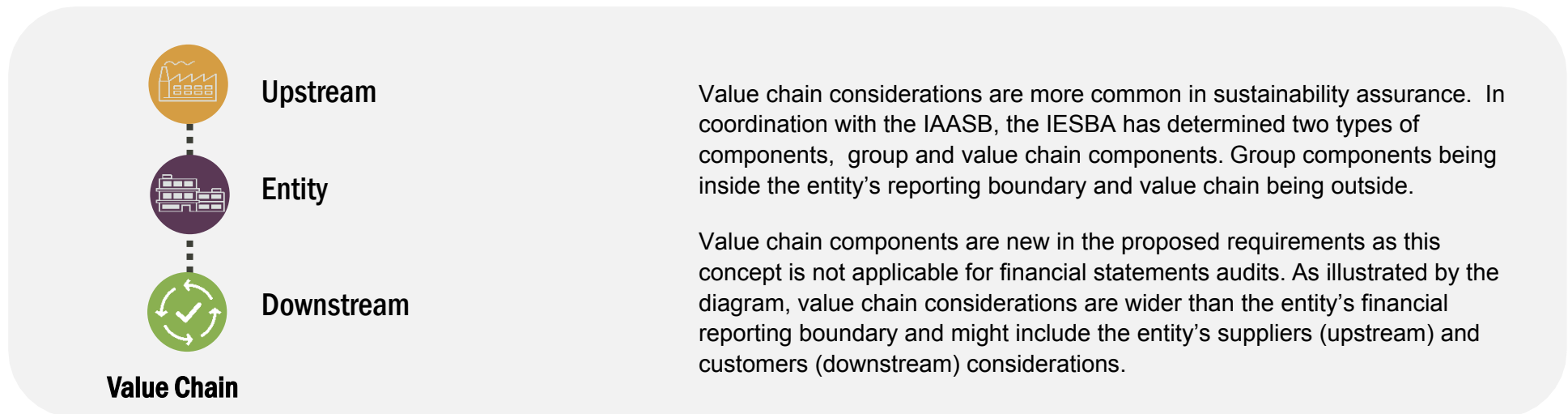
The section includes specific requirements for what a practitioner should do when they become aware that management or those charged with governance of the assurance client do not comply with laws and regulations.

The proposal requires practitioners to:

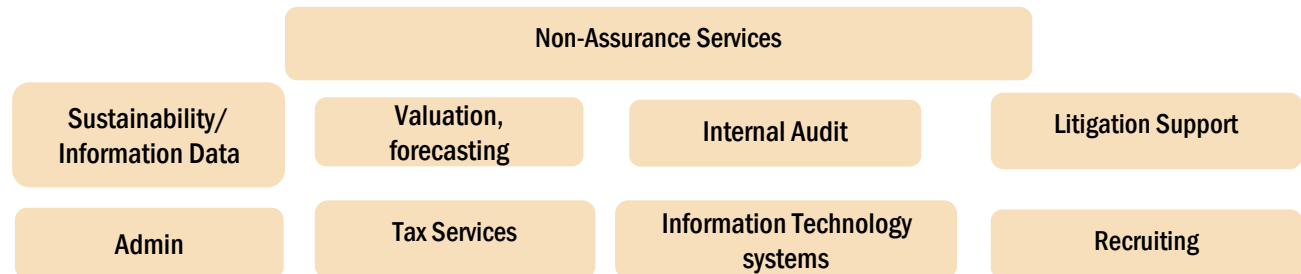
- obtain an understanding of the matter, and
- discuss it with an appropriate level of management and those charged with governance to advise them to take appropriate and timely action to address the matter.
- communicate the matter to the financial statement auditor of the assurance client.

Applying the Conceptual Framework to Independence

Independence is a fundamental cornerstone for assurance. It is critical to allow for stakeholders to appropriately use assurance reports provided over sustainability information. Sections 5400 – 5700 include detailed requirements for sustainability assurance practitioners to ensure they remain independent. They outlines processes for practitioners to apply the conceptual framework to identify, evaluate and address threats to independence when they arise in a range of circumstances.



The section also provides examples of common situations including the provision of non-assurance services that might create threats to independence, and potential actions that assurance practitioners can take to address these threats. The services considered under non-assurance services are included in the orange boxes.





NZAuASB Board Meeting Summary Paper

Meeting date: 12 February 2025
Subject: Using the Work of an External Expert
Date: 27 January 2025
Prepared By: BM



Action Required



For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is to provide the Board with an **UPDATE** on the IESBA's *Using the Work of an External Expert* project and **CONSIDER** and PROVIDE input for next steps.

Background

2. The aim of the IESBA project was to establish a principles-based framework to guide:
 - a. The ethical considerations relating to the competence, capabilities and objectivity (CCO) of external experts whose work is used by professional accountants (PAs) and assurance practitioners in carrying out their professional activities
 - b. The ethical behaviour of the practitioners when using the work of such external experts.
3. Reliance on experts has been identified as a growing area, as external experts are increasingly being used by assurance practitioners, in both audit and other assurance (including sustainability) engagements. However, concerns were raised that there were no specific objectivity requirements for these experts, despite them contributing significantly to the assurance being provided.
4. Experts are individuals or organisations possessing expertise that is outside the assurance practitioner's competence. An external expert is an expert engaged by an assurance practitioner.
5. The IESBA have structured the revisions as follows:

Action	Part	Section number and title	Applicable to
Amended	2	Section 220.7 <i>Using the Work of Others</i>	In the New Zealand context, financial statement assurance practitioners
Added	2	Section 290 <i>Using the Work of an External Expert</i>	
Amended	3	Section R320.10 <i>Using the Work of an Expert</i>	
Added	3	Section 390 <i>Using the Work of an External Expert</i>	
Added	5	Section 5390 <i>Using the Work of an External Expert</i>	Sustainability assurance practitioners (who are required to, or voluntarily, apply Part 5)
Amended	-	Glossary Consequential Amendments	All

6. The new sections 290, 390 and 5390 establish an ethical framework to guide practitioners in evaluating whether an external expert has the necessary competence, capabilities or objectivity for the practitioner to use the expert's work for the intended purposes.
7. The following is a summary of the ethical framework, in the amending standard:

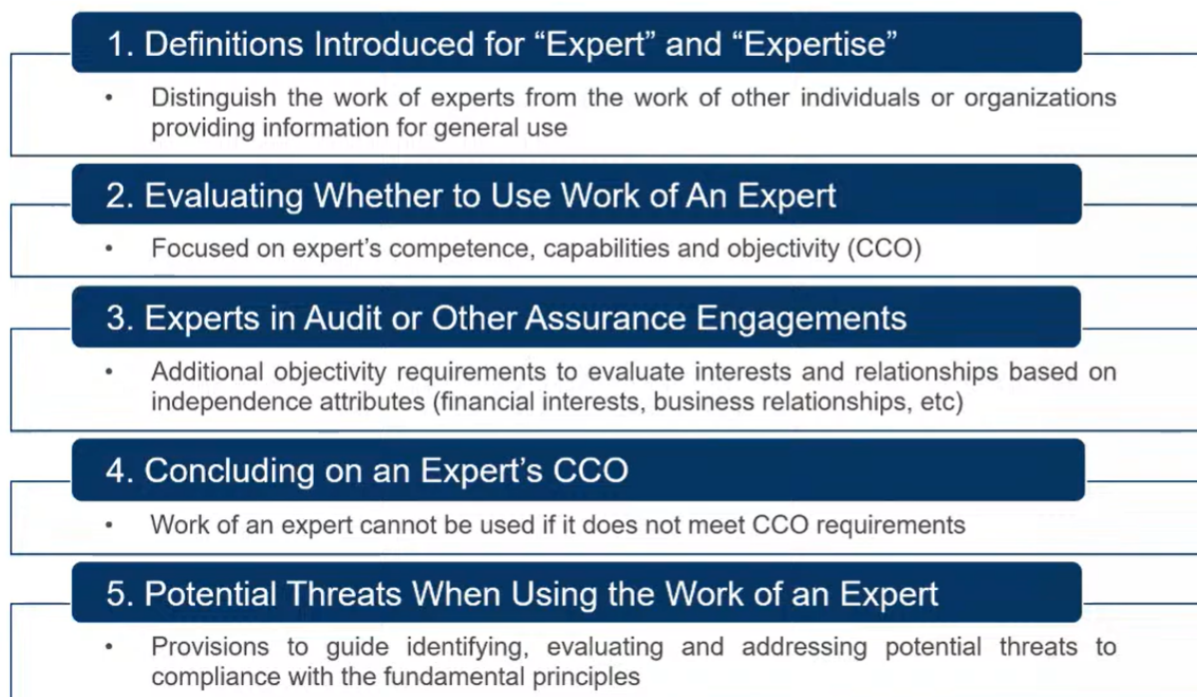


Figure 1 Source: IESBA presentation to IAASB, December 2024

8. The standard (at paragraphs 390.2 and 390.4 A4) explains what is not in the scope of the provisions:
 - a. Work of management's expert
 - b. Subcontractors that are under the direction, supervision and review of the PA
 - c. Other information provided by external sources for general use
 - d. Close business relationships with an external expert.
9. The IESBA released their Exposure Draft (ED) on *Using the Work of an External Expert* in January 2024. The XRB conducted our consultation on the ED in March/April 2024. No formal written comments were received on this consultation. However, focus group meetings were held on 14 March (in-person) and 15 March (virtually) to gather feedback around whether the proposals are fit for purpose within the New Zealand context.

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

- Changes made to definition of terms are reasonable, prohibitions on not allowing use of experts who are not competent, capable and objective, is appropriate.
 - The proposed ethical framework for the higher-level purposes of engaging external experts is reasonable, however, there is confusion and a lack of distinction between the proposed principles within the Exposure Draft, and the existing principles around using the work of experts contained within other existing assurance standards. There is now a large amount of duplication within the Code because of these proposals. (This has been clarified by the IESBA at section 390.3)
 - The existing core principles around engaging and using the work of experts are well understood. There may be a risk of complacency with the requirements in the Exposure Draft, if assurance practitioners consider they already have established processes and believe these requirements be substantially similar. (The IESBA plans to develop non-authoritative material)
 - Some requirements within the proposals may result in large costs compared to benefits around using external experts (such as assessing the CCO of all members within the expert's team). Such requirements may incentivise assurance practitioners to not engage external experts, or incorporate experts into their assurance teams, to avoid these requirements, which may create unintentional additional costs. (The IESBA has now delineated the objectivity provisions between non-PIE and PIE clients to achieve greater proportionality in the request for information from an external expert when evaluating objectivity)
11. The XRB's [submission](#) to the IESBA, in April 2024, stated that *"The NZAuASB agrees that it is important to address the use of experts, especially in the context of sustainability given the range of expertise that may be required. The overall objective of the proposals had a focus on exploring the independence or objectivity of the external expert. We agree that the approach followed by the IESBA in developing the objectivity considerations is broadly appropriate. We consider the revised definitions are reasonable, and generally are responsive to the public interest expectations around using experts."*

Final Standard

12. The IESBA approved the final amending standard¹ at its December 2024 meeting and it was issued on 17 January 2025 after PIOB certification.

13. In the issues paper, we have summarised:

- The XRB's [submission](#) to the IESBA about the exposure draft (ED) and how the IESBA responded.

We conclude that the XRB's recommendations in the submission letter were mostly addressed by the IESBA in finalising the standard. We have noted in the issues paper those items that have not been addressed, and the board is asked to consider whether any should be added to a NZ version of the standard.

- Key revisions between the ED issued in January 2024 and the final standard.

The IESBA noted that the changes to the ED do not fundamentally change the standard other than to introduce proportional requirements for small-to-medium practitioners when

¹ The final amending standard, Basis for Conclusion, and guidance is available from the [IESBA's website](#)

performing work on non-Public Interest Entities. We agree with this conclusion and consider the changes made to be reasonable overall.

IAASB Project – Experts Narrow Scope Amendments

14. In response to the IESBA project, the IAASB has launched a narrow-scope project to consider whether targeted amendments to ISA 620² are needed to ensure it remains interoperable with the new provisions of the Code with respect to using the work of an external expert.
15. The Project Proposal was approved at the IAASB's December 2024 meeting. An exposure draft is expected to be approved in March 2025.
16. The IAASB and IESBA projects have different purposes and scope³. The following illustrates the purpose and scope of both projects on this matter and the aligned rationale.

	IAASB	IESBA	Aligned rationale of both SSBs
Purpose	Address whether expert's work is adequate (expert's CCO impact adequacy of such work)	Address ethical threats, e.g., overreliance, when PA uses work of external expert (expert's CCO impact such threats)	<ul style="list-style-type: none"> • Outcome of performance standards – obtain sufficient appropriate evidence • Outcome of ethics standards – ensure PA's compliance with the Code's fundamental principles (FPs)
Scope	Currently audits and other assurance engagements only, e.g.: <ul style="list-style-type: none"> • ISA 620 • ISSA 5000 • ISA 500 (Mgt's experts) 	Audits and other assurance engagements, and NAS; also applicable to PAIBs: <ul style="list-style-type: none"> • External experts only • N/A re mgt's experts 	Code also applies to PAPPs performing NAS; also PAIBs <ul style="list-style-type: none"> • Internal experts are part of audit team, hence already subject to independence under the Code • Work of mgt's expert same as using info of others – Code applies

Figure 2 Source: IESBA presentation to IAASB, December 2024

17. We will update the Board on the IAASB project as it progresses and consider its implications for New Zealand.

Matters to Consider

18. As set out in the issues paper, the Board will consider and discuss:
 - a. Adoption of the sections relevant to financial statement assurance practitioners
 - b. Adoption of the section, Part 5, relevant to sustainability assurance practitioners. In conjunction with this, at the previous agenda item, the Board will note Part 5 to Code of Ethics approved by the IESBA and provide input for further steps what to do with Part 5 to the Code of Ethics in New Zealand.
 - c. Any other costs or benefits of adoption.
 - d. Next steps.

² ISA 620, *Using the Work of an Auditor's Expert*

³ **CCO**: Competence, Capabilities or Objectivity, **PA**: Professional Accountant, **NAS**: Non-Assurance Services, **PAIBs**: Professional Accountants in Business, **PAPPs**: Professional Accountants in Public Practice, **SSBs**: Standard Setting Boards

Using the Work of an External Expert: Issues Paper (February 2025)

1. This issues paper summarises:
 - The XRB's submission and how the IESBA have responded.
 - Key revisions between the exposure draft (ED) and the final standard.
 - Considerations around adopting this amending standard in New Zealand:
 - a. as they relate to financial statement assurance practitioners
 - b. as they relate to discussions around what to do with Part 5 - International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA).
 - Options and Next steps.

XRB submission and how the IESBA have responded

2. We have reviewed the [IESBA's final standard](#) and considered what actions were taken in response to the XRB's [submission](#) in finalising the standard.

Recommendations raised in our submission which have been addressed

Recommendation	IESBA Response	XRB Staff views
<i>Interaction with performance-based assurance standards</i>		
The XRB requested further clarity as to how these IESBA proposals will work with the requirements for using the work of external experts contained within performance-based assurance standards.	<p>To address the circumstance where relevant performance standards might already require the evaluation of an external expert's competence, capabilities or objectivity (CCO) in an audit or other assurance engagement, the IESBA have clarified at section 390.3¹:</p> <p><i>Other professional standards might address the competence, capabilities and objectivity of an external expert ...</i></p>	IESBA response considered reasonable
<i>Glossary</i>		
The XRB recommended that considering the experience of an external expert should be part of evaluating the capabilities of the external expert	<p>The IESBA included a reference to experience in the definition of expertise. The assessment of competence (not capabilities) includes reference to the level of expertise of the external expert.</p> <p>The effect of this addition addresses the XRB's suggestion, as the practitioner is now explicitly required to consider the experience of the external expert when evaluating their CCO.</p> <p>The addition is as follows:</p>	IESBA response considered reasonable

¹ Paragraph references in brackets are to the standard

Recommendation	IESBA Response	XRB Staff views
	<p><i>R290.6 The professional accountant shall evaluate whether the external expert has the necessary competence for the accountant's purpose.</i></p> <p><i>290.6 A1 Competence relates to the nature and level of expertise of the external expert.</i></p>	
<i>Inherent limitations in evaluating an external expert's competence, capabilities or objectivity</i>		
The XRB recommended that the IESBA clarify the purpose of the application material in relation to evaluating an external expert's CCO.	<p>This application material was deleted, as it was determined to be unclear as it conveyed that the external expert's work can still be used, even if there is a lack of information to evaluate their CCO.</p> <p>Under such circumstances, the PA is prohibited from using the work of such external expert (paragraph R390.21(a)).</p>	IESBA response considered reasonable
<i>Self-review threats within general requirements</i>		
The XRB recommended that the IESBA add an example of self-review threats created from the use of an external expert, to avoid confusion around the intention of this category of threats.	<p>A self-review threat created from the use of an external expert has been added at section 390.23 A1(b):</p> <p><i>390.23 A1 Examples of facts and circumstances that might create threats to a professional accountant's compliance with the fundamental principles when using an external expert's work include:</i></p> <p><i>(b) Self-review threats</i></p> <ul style="list-style-type: none"> <i>• A professional accountant uses the work of an external expert who relies on previous judgments made by the accountant and provided to the external expert for the purposes of their work.</i> 	IESBA response considered reasonable
<i>Examples relevant to sustainability assurance services</i>		
The XRB noted that Part 5 could be better tailored to reflect the breadth of considerations which may be required when considering sustainability related matters.	<p>Additional examples have been provided when an external expert may be used in sustainability assurance services at section 5390.4 A3, such as:</p> <ul style="list-style-type: none"> <i>• The assessment of forward-looking information about the decarbonization plans of an entity.</i> <i>• The assessment of the application of offsetting mechanisms for an entity, such as for carbon or biodiversity.</i> 	IESBA response considered reasonable

Recommendation	IESBA Response	XRB Staff views
	<ul style="list-style-type: none"> Consideration of the methodologies or classification systems used to measure a product's impact on the environment. Assessment or measurement of impacts of activities, products or services on the environment, economy and social or cultural conditions. 	

Recommendations raised in our submission which have not been fully addressed

Recommendation	IESBA Response	XRB Staff views
Implementability of objectivity requirements		
The XRB recommended limiting the objectivity requirements to individuals who have responsibility and accountability within the external expert's team.	In the Basis for Conclusions, the IESBA have noted that <i>"The IESBA considered whether to narrow the scope of individuals and organizations related to the external expert that should be covered in the evaluation of the external expert's objectivity. Recognizing stakeholders' heightened expectations regarding an external expert's objectivity when the external expert is used in an audit or other assurance engagement, the IESBA reaffirmed its view that the provisions are appropriate."</i>	IESBA response considered reasonable, as their rationale is documented in their Basis for Conclusions.
Additional considerations for evaluating an external expert's competence		
The XRB recommended further requirements are included to consider local-specific environmental, economic, social and cultural factors to allow for practitioners to identify the correct external expert for each subject matter.	No requirement has been added.	<p>Although our recommendation was not added, the IESBA have made some amendments to the factors that are relevant in evaluating whether the external expert has the necessary competence (section 5390.6 A2), including:</p> <p><i>Whether the external expert belongs to a relevant professional body <u>or is subject to oversight by a regulatory body or other authority</u>, and, if so, whether the external expert is in good standing.</i></p> <p><i><u>Whether any disciplinary actions have been published by a regulatory body or other authority relating to the external expert's competence.</u></i></p>

Recommendation	IESBA Response	XRB Staff views
		<p><i>Whether the external expert's work is subject to professional standards issued by a recognized body, or follows generally accepted principles or practices, <u>or adheres to legal and regulatory requirements</u> in the external expert's field or area of expertise.</i></p>
Additional factors for evaluating an external expert's capability		
<p>The XRB recommended that the IESBA should include additional examples of 'capability' within the Code to help PAs/SAPs distinguish between capability and competence-related matters</p>	<p>No additional examples added</p>	<p>Although the IESBA have not included additional examples, section 390.10 A1 has been added to emphasise the importance of exercising professional judgment when evaluating whether the external expert has the necessary CCO.</p> <p><u>390.10 A1 Evaluating whether an external expert has the necessary competence, capabilities and objectivity for the professional accountant's purpose involves exercising professional judgment and using the reasonable and informed third party test.</u></p>
Further information about safeguards		
<p>The XRB recommended that the IESBA should require a practitioner to request further information from external experts about any safeguards or mitigations that the external expert may have put in place to address potential objectivity threats. This will allow for PA/SAPs to perform a more informed assessment of objectivity, recognising that experts may have, and be applying, their own</p>	<p>No requirement has been added.</p>	<p>Our recommendation has not been attended to, i.e. there has not been a requirement added to request further information from external experts about any safeguards or mitigations in place to address potential objectivity threats.</p> <p>Although this requirement was not added, further content has been added in relation to actions that could be taken that might address threats to an external expert's objectivity, such as:</p> <ul style="list-style-type: none"> • Factors relevant to evaluating the level of identified threats to an external expert's objectivity (section 390.18 A2)

Recommendation	IESBA Response	XRB Staff views
professional and ethical obligations.		<ul style="list-style-type: none"> Examples of actions that might <i>eliminate</i> such threats (section 390.18 A3) Examples of actions that might <i>be safeguards</i> to address such threats (section 390.18 A4)
Evaluating all individuals within an external expert's team		
The XRB recommended this evaluation be limited to individuals who have responsibility and accountability within the expert's team for the provision of expert services, and the ability to significantly influence the expert's conclusions, rather than all individuals within the expert's team.	<p>No further limitations added.</p> <p>The IESBA September 2024 board papers noted that <i>"the selection of individual team members is determined by the external expert. The Task Force anticipates that this would not include administrative staff, quality reviewers or peer reviewers who might be used by an external expert, or other consultations performed by the external expert to perform the work.</i></p> <p><i>Rather, the external expert's team would include the team members involved in performing the work of the external expert. This is akin to engagement team members, being individuals performing procedures for the audit or other assurance engagement, and where administrative staff or quality reviewers, etc., are not members of the engagement team."</i></p>	<p>Staff note the IESBA's position.</p> <p>The Basis of Conclusions states that <i>"The IESBA considered whether to narrow the scope of individuals and organizations related to the external expert that should be covered in the evaluation of the external expert's objectivity. Recognizing stakeholders' heightened expectations regarding an external expert's objectivity when the external expert is used in an audit or other assurance engagement, the IESBA reaffirmed its view that the provisions are appropriate."</i></p>
Development of non-authoritative material		
The XRB recommended explicitly including information on broader conflicts which may be relevant to an external expert's objectivity.	The IESBA concluded that this matter would be more appropriately addressed in non-authoritative material and recommend development of non-authoritative guidance in response to the points the XRB raised around competence, educational resources, and implementation support.	IESBA response considered reasonable. Such guidance has not yet been drafted at time of writing.

3. We conclude that the XRB's recommendations in the submission letter were mostly addressed by the IESBA in finalising the standard. Although there are items that have not been addressed, none have been noted by staff as needing to be added to the NZ version of the standard, should it be adopted. However, the board is asked to consider if any items mentioned in their submission, which were not included by IESBA, should be added to a New Zealand version of the standard.

Key revisions between the Exposure Draft (ED) and the final standard

4. The IESBA has made several other changes to the proposals since the ED and have noted that these changes do not fundamentally change the requirements, other than introducing proportional

requirements for small-to-medium practitioners when performing work on non-Public Interest Entities.

5. We agree with this conclusion and consider the changes made to be reasonable overall.
6. The following is a summary of the key revisions between the ED and the final draft standard. References to sections in the [IESBA's final standard](#) are in brackets.
 - Full alignment of definitions with ISA 620, whenever the IESBA and the IAASB are using the same terms (glossary).
 - New guidance pointing to other professional standards that address the adequacy of an experts' work for the professional accountant's purpose. (section 390.3 and 390.4 A5)
 - For an audit, review or other assurance engagement:
 - As part of agreeing the terms of engagement with the external expert, a new requirement for the external expert to communicate any changes in the information provided from the beginning of the audit, review, or other assurance report until the issuance of such report. (section 390.5)
 - Clarification of the period of evaluation in relation to an external expert's objectivity, being "for the period during which the external expert is performing the work". This wasn't stated previously (section 290.8 A2, 390.8 A2, 5390.8 A2).
 - In Section 390, introduction of a more proportionate approach to evaluating an external expert's objectivity, distinguishing the relevant provisions between:
 - Audit and Review Engagements for Clients that are Not Public Interest Entities and All Other Assurance Engagements Outside the Scope of Part 5 (paras R390.12-390.13 A2); and
 - Audit and Review Engagements for Clients that are Public Interest Entities (section R390.14).

Staff comments

This change was due to concerns expressed during the ED consultation, that for small to medium practitioners (SMPs) the requirement to obtain such a long list of information from an external expert is onerous and disproportionate. The feedback noted this created a barrier to SMPs engaging external experts, which would not be in the public interest.

As a result of the IESBA's updates for non-PIEs assurance engagements, the practitioner would only be required to request information from the external expert on three matters to evaluate objectivity, and then consider the need to request and evaluate any additional information.

Assurance practitioners of PIEs (and Part 5 PIE assurance clients) still need to request information from the external expert on an extended list of matters to evaluate the external expert's objectivity (R390.4 and R5390.14).

Overall, we consider these changes to be reasonable. A more proportionate approach may reduce concerns that undue costs may incentivise assurance practitioners to not engage external experts.

- A new requirement for the re-evaluation of the external expert's competence, capabilities and objectivity (CCO), should the professional accountant become aware of any changes in facts and circumstances (section R290.11, R390.19, R5390.19).

- New guidance to:
 - Emphasise that the evaluation of an external expert's CCO requires the exercise of professional judgment and use of the reasonable and informed third party test (section 290.10 A1, 390.10 A1, 5390.10 A1).
 - Clarify the circumstances that would result in a professional accountant being unable to determine whether the external expert has the necessary CCO (290.10 A2, R290.12, 390.10 A2).
 - Explain the ethical basis for prohibiting the use of the work of an external expert when the external expert does not have the necessary CCO (section 290.12 A1, 390.1 A2, 5390.5 A2, 5390.21 A2).

Considerations around adopting this amending standard in NZ

7. The Board needs to consider if and how to:

- Adopt the requirements relevant to financial statement assurance practitioners
- Adopt the requirements relevant to sustainability assurance practitioners.

8. The XRB's mandate under section 12(b) of the Financial Reporting Act 2023 states:

The Board has the following functions: ...

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

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

9. The NZAuASB's existing [*Policy and Process for International Conformance and Harmonisation of Standards*](#) sets out a key strategic objective set out by the XRB Board for the NZAuASB:

to adopt international auditing and assurance standards, including the professional and ethical standards for assurance practitioners... 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.

10. The Harmonisation policy was established in the context of financial statement assurance. As discussed in the previous agenda item, the policy for sustainability assurance is still under development.

11. This standard is applicable to both financial statement assurance practitioners and sustainability assurance practitioners and we are seeking views on the next steps.

12. Based on staff's analysis, the standard addresses concerns that objectivity requirements for the use of external experts were not included in current XRB standards. Through the consultation process, and from our review of the final standard, we have established that the principles, requirements and guidance established in the amending standard are appropriate for New Zealand. The principles are equivalent for financial and sustainability assurance. The requirements are replicated in different sections of the international code.

Cost vs Benefit considerations

13. In the Minister's [letter of expectations](#), he expects that the XRB will "For each new proposed standard, consider the value of those standards and the implications of their benefits and costs."
14. Our analysis of the costs and benefits include:

Costs	Benefits
There would be costs associated with adopting the revised standard in New Zealand include updating of firm methodologies, templates and education. Due to the nature of the amendments, these wouldn't expected to be significant.	<ul style="list-style-type: none"> This standard addresses concerns raised that there were no specific objectivity requirements for external experts within the ethical standards, despite them contributing significantly to the assurance being provided. The adoption of this amending standard will align New Zealand's practices with international reputable ethical standards, ensuring consistency in how external experts are evaluated and used in assurance engagements.
The requirement to evaluate the objectivity of all members within an expert's team may increase the level of work required by the practitioner i.e. the practitioner is required to ask more questions of experts. Assurance practitioners may be incentivised to avoid engaging external experts.	<ul style="list-style-type: none"> The standard has an element of proportionality to the requirements to by tailoring requirements to the size and complexity of the entity being audited, i.e. distinguishing between Public Interest Entities (PIEs) and non-PIES. This ensures that small-to-medium practitioners are not overburdened with the same requirements as those applied to larger entities. A more proportionate approach may reduce concerns about the incentive for assurance practitioners to not engage external experts and the costs of compliance.
Some may view that the requirements may lack distinction from existing principles contained within other existing assurance standards, i.e. ISA (NZ) 620, and this may consider that this could lead to duplication of work effort.	<ul style="list-style-type: none"> The IESBA has tried to mitigate this issue, in section 390.3, by cross referring to other performance standards, stating that "Other professional standards might address the competence, capabilities and objectivity of an external expert as factors that significantly affect whether the work of the external expert will be adequate for the professional accountant's purposes." Therefore the practitioner could use the work undertaken in ISA (NZ) 620 para 9, when addressing the CCO of the external expert in the IESBA standard. This standard goes further than ISA (NZ) 620 in that it provides a more detailed ethical framework for evaluating the expert's competence, capabilities, and objectivity, including the evaluation of the entire expert's team. ISA (NZ) 620 is specifically focused on the

	auditor's use of an expert's work in the context of financial statement audits, while the IESBA standard has a broader application, including sustainability assurance and other assurance services.
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15. The adoption of this amending standard will result in both benefits and costs for New Zealand stakeholders. Overall, we consider that the benefits, are greater than the costs.
16. We welcome the Board's views on any further costs and/or benefits when considering adoption in New Zealand.

Options and Next steps

17. The effective date set out by IESBA for part 2 is as of 15 December 2026, Part 3 (and Part 5) is for periods beginning on or after 15 December 2026.
18. The Board is asked to consider what are our next steps for this amending standard, i.e. do we:

Option 1	Not adopt this standard at all.
The Board may decide not to adopt this amending standard at all. Staff do not recommend this option, given the above analysis that the benefits are greater than the costs, and our harmonisation policy to align with international standards where possible, and to minimise the reputation risk for the XRB.	
Option 2	Adopt the sections relevant to financial statement assurance practitioners (Part 2 and Part 3, including the relevant consequential amendments) and Not adopt Part 5 (the section relevant to sustainability assurance practitioners).
Depending on the decision in the previous agenda, the Board may decide to adopt Parts 2 and 3, but not Part 5. This would ensure that code of ethics for financial statement assurance practitioners aligns with the international standard. If the Board decides not to adopt part 5 in the previous agenda, option 2, presented here, would be the best approach to ensure international alignment for those assurance practitioners who are "accountants" (who are part of an association of accountants), for whom we are mandated to set a code of ethics for.	
Under this option, the sustainability assurance practitioners would follow the current XRB standards (or any XRB developed domestic standard) and any standards required by other parties, for example CA ANZ or JAS ANZ.	
Option 3	Adopt the sections relevant to financial statement assurance practitioners (Part 2 and Part 3, including the relevant consequential amendments) and:
	<ol style="list-style-type: none"> 1. Adopt Part 5 as it is relevant for those sustainability assurance practitioners who are "accountants" (who are part of an association of accountants); <u>OR</u> 2. Adopt Part 5 for any sustainability assurance practitioner.
Depending on the decision in the previous agenda, one of these options may be preferable. In addition to Parts 2 and 3, the Board may decide to adopt Part 5 of this standard, as it is relevant for <i>those sustainability assurance practitioners who are "accountants"</i> (who are part of an association of accountants); for whom we have a mandate to issue code of ethics for under the Financial Reporting Act. This would ensure that code of ethics for financial statement assurance practitioners and that group of sustainability assurance practitioners who are "accountants" aligns with the international standard.	

Alternatively, the Board may decide to adopt Part 5 for *all sustainability assurance practitioners*, regardless of them being “accountants” (per the above). This would ensure that the code of ethics for financial statement assurance practitioners and sustainability assurance practitioners aligns with the globally accepted international standard.

19. If the Board did decide either Option 2 or 3, the Board may also consider if there are any compelling reasons to:
- (a) Remove some of the requirements that the Board may consider to be onerous. For example in its submission, the XRB recommended limiting the objectivity requirements to individuals who have responsibility and accountability within the external expert’s team. The Board may therefore decide to narrow the scope of the objectivity requirements in the standard. However, this would result in a standard that is not aligned internationally standard. Furthermore staff believe that removing requirements would not meet the compelling reasons test in our Harmonisation policy as it would result in a standard that is lesser than or in conflict with the international standard. We therefore do not recommend removing requirements when developing a NZ standard.
 - (b) Add requirements to the NZ standard, particularly in the areas noted in our submission to the IESBA that were not fully addressed, discussed [above](#), for example:
 - Additional considerations for evaluating an external expert’s competence (local-specific environmental, economic, social and cultural factors)
 - Additional factors for evaluating an external expert’s capability
 - Further information about safeguards

We do not recommend adding any new requirements to this amending standard, as this would require resources to identify areas and develop suitable drafting. Furthermore, such requirements could conflict with the international standard, and any perceived benefits of modifying the international standard would likely not outweigh the costs of including such modifications (particularly the cost of not being aligned with IESBA).

Recommendation

20. Based on the staff recommendation in the previous agenda item, that the Board considers adopting IESSA, we therefore recommend the board considers adopting this standard as presented in Option 3. This option minimises reputational risk and allows New Zealand being aligned with international standards.

- 21. **Does the Board have any other costs or benefits for adoption of this amending standard?**
- 22. **Taking into account the XRB’s mandate under the Financial Reporting Act, the harmonisation policy and the costs vs benefits of adoption, and the previous agenda item’s discussion on Part 5, the board is asked to consider and discuss the options and next steps for this amending standard, as outlined above at points 18-19.**

Date: 5 February 2025

To: XRB Board Members, NZASB Members, NZAuASB Members

From: Michelle Lombaard, Misha Pieters, Nimash Bhikha

Subject: Service Performance Reporting – Project Update

Purpose

1. The purpose of this agenda item is to **UPDATE** the XRB Board, the NZASB and the NZAuASB (the Boards) on the proposed joint project plan and timetable to address the reporting and assurance issues identified relating to service performance reporting.

Recommendations

2. The Boards are asked to **PROVIDE FEEDBACK** on the outline of the developing Discussion Paper (DP) and the revised timetable for this project, as requested by the Boards previously.

Background

3. At the December 2024 meetings, the NZASB and the NZAuASB considered a proposed joint project plan and timetable to address the accounting and assurance issues relating to service performance reporting identified through initial feedback from entities and assurance practitioners during 2024. The XRB Board was updated at its December meeting.
4. The proposed plan covered three workstreams, which included:
 - (a) Amendments to the reporting standard PBE FRS 48 *Service Performance Reporting*;
 - (b) Development of guidance materials for preparers around the key principles of service performance reporting, focussed on Not-For-Profit (NFP) reporting; and
 - (c) Development of guidance for assurance practitioners around applying the audit and assurance standards when dealing with service performance subject matters.
5. The NZASB recommended that, instead of developing an Exposure Draft (ED) to amend PBE FRS 48 *Service Performance Reporting* at this time, a DP should be developed to explore whether planned actions would help stakeholders with the issues they are facing, and whether there were other issues or actions which should be considered.
6. The NZAuASB was updated on the NZASB's decision to develop a DP. The NZAuASB reflected on the priority of developing guidance to support the revised NZ AS 1 *The Audit of Service Performance Information* and encouraged staff to consider what guidance may be expedited to support implementation (including guidance relating to audit evidence).
7. The XRB Board noted the development of a DP but reiterated the need to be agile and responsive to the issues raised. The XRB Board also noted the DP could include discussion on the analysis taken to date, and other options explored in addition to amending PBE FRS 48 and

developing guidance. The XRB Board also encouraged the NZASB and the NZAuASB to be bold in addressing these challenges, maintain momentum on the project and focus on joined-up solutions.

8. All three Boards requested that staff provide an update at the respective February 2025 meetings, including a revised timeline to reflect the updated approach.
9. We have prepared an outline of the DP for the Boards to consider ([Appendix A](#)), as well as a revised timetable for this project ([Appendix B](#)).

XRB sub-committee

10. The XRB Board noted that a sub-committee of NZASB and NZAuASB members would assist staff with next steps and that a representative from the XRB Board may be useful. Staff agree that this sub-committee would be useful, and this is in the process of being established.
11. We are intending for a whole of XRB approach to address the challenges in service performance reporting and assurance, and the DP covers reporting and assurance topics. As such, staff recommend the XRB sub-committee, on behalf of the three Boards and under delegated authority from the XRB Board, should be responsible for the approval of this DP. This will allow for the DP to be developed and issued in an efficient and timely manner, with a balanced view from the XRB Board, the NZASB and the NZAuASB representatives, with updates provided to the Boards.
12. After the DP period, we will consider the process required around the development of an Exposure Draft with amendments to PBE FRS 48. Any process will ensure the ED is reviewed and approved by the NZASB (in line with the delegated authority for reporting standards), and that updates are provided to the sub-committee and the Boards.

Questions for the Boards:

- Q1. Do the Boards have any **FEEDBACK** on the DP outline (as outlined in [Appendix A](#))?
- Q2. Do the Boards have any **FEEDBACK** on the project timeline (as outlined in [Appendix B](#))?
- Q3. Does the XRB Board **AGREE** with the process around developing and issuing the DP and have **FEEDBACK** on who should be on the sub-committee?

Appendix A – Discussion Paper Outline

The proposed Discussion Paper (DP) will cover the following topics:

Section	Outline	Tiers
Section 1: What is this DP about?	<ul style="list-style-type: none"> • Why are we consulting on Service Performance Reporting • Who should respond • How to provide feedback 	All Tiers
Section 2: Background information on Service Performance Reporting	<ul style="list-style-type: none"> • Role of General-Purpose Financial Reports (GPFR) • Purpose of Service Performance Reporting • Service Performance Reporting Principles • The XRB's mandate around reporting • Assurance of Service Performance Information <ul style="list-style-type: none"> - Legislative requirements - Non-legislative requirements - Standards for assurance practitioners • Observations from the implementation of service performance reporting <ul style="list-style-type: none"> - Lack of clarity over reporting principles - Differences in Public Sector and NFP Sectors - Capability and capacity in reporting - Verification challenges 	All Tiers
Section 3: Possible XRB Actions and Analysis	<ul style="list-style-type: none"> • Making Service Performance Reporting voluntary for PBEs, by removing it from GPFR • Separating service performance information from the financial statements to allow a different assurance product (<i>not within the current XRB mandate</i>) • Adding exemptions for some PBE subsectors, specifically philanthropic funders • Setting different reporting requirements for NFP and Public Sectors • Enhancing the understanding and application of requirements through standard-setting and supporting guidance 	All Tiers
Section 4: The XRB's Suggested Approach	<ul style="list-style-type: none"> • Clarifying the reporting requirements • Introducing tailored Public Sector and NFP Sector appendices • Developing reporting guidance targeted towards largest NFP sub-sectors • Developing assurance guidance targeted assurance practitioners relating to evidence 	Tier 1 & 2
Section 5: Potential Action – Amendments to PBE FRS 48	<ul style="list-style-type: none"> • Overview of the current approach in PBE FRS 48 • The problem we are trying to solve: Potential challenges heard from current feedback <ul style="list-style-type: none"> - Content Ambiguities - User Identification Challenges - Appropriate and meaningful performance information 	Tier 1 & 2

Section	Outline	Tiers
	<ul style="list-style-type: none"> The proposed solution: Details of what this action would involve <ul style="list-style-type: none"> Clarity around content of Service Performance Information Definitions around Service Performance Information Conceptual Framework Alignment Basis of Preparation and disclosure requirements 	
Section 6: Potential Action – Structural Changes to PBE FRS 48	<ul style="list-style-type: none"> Overview of the current approach in PBE FRS 48 The problem we are trying to solve: Potential challenges heard from current feedback <ul style="list-style-type: none"> Legislative context variations Reporting framework maturity Resource constraints The potential solution: Details of what this action would involve <ul style="list-style-type: none"> Public Sector authoritative appendix – Integration with legislative requirements and appropriations, treatment of appropriation-funded activities, and cross-agency collaboration and attribution of performance Not-For-Profit Sector authoritative appendix – Steps for developing a performance framework without legislative requirements, linking outputs to outcomes, and selecting appropriate measures 	Tier 1 & 2
Section 7: Potential Action – Guidance on Service Performance Reporting	<ul style="list-style-type: none"> Overview of the current approach to reporting guidance The Problem we are trying to solve: Potential challenges heard from current feedback <ul style="list-style-type: none"> Framework development and measurement challenges Evidence challenges Limited diversity of performance measures The potential solution: Details of what this action would involve – Guidance for the four largest NFP sub-sectors (Health, Education, Social Services and Religious Activities) <ul style="list-style-type: none"> Examples of appropriate and meaningful mixes of performance measures which include quantitative & qualitative measures, and qualitative descriptions Examples for how each measure could be evidenced Examples of the basis of preparation for service performance Examples of how judgements made in selecting performance measures and in measuring performance could be disclosed 	Tier 1 & 2
Section 8: Potential Action – Guidance on Service Performance Assurance	<ul style="list-style-type: none"> Overview of the planned approach to assurance guidance The problem we are trying to solve: Potential challenges heard from current feedback <ul style="list-style-type: none"> Verification Challenges Application of wider auditing standards to service performance information 	All Tiers

Section	Outline	Tiers
	<ul style="list-style-type: none"> - Internal control considerations - Applying materiality when assuring non-financial information • The potential solution: Details of what this action would involve - Guidance on assurance evidence 	

Appendix B – Revised Project Timeline

Month	Key Accounting Team Activities & Milestones	Key Assurance Team Activities & Milestones
January 2025	<ul style="list-style-type: none"> Development of Discussion Paper Development of Illustrative Guidance 	<ul style="list-style-type: none"> Develop assurance evidence guidance
February 2025	<ul style="list-style-type: none"> Develop communication messages for DP consultation, including communication strategies and outreach 18 February 2025 – DP outline & process considered by XRB Board (Discussion) 20 February 2025 – DP outline & process considered by NZASB (Discussion) 	<ul style="list-style-type: none"> 12 February 2025 – DP outline & process considered by NZAuASB (Discussion) 12 February 2025 – Approach to audit evidence guidance considered by NZAuASB
March 2025	<ul style="list-style-type: none"> Process updates and refinements to DP Refine communication messages for DP consultation, including communication strategies and outreach March 2025 – DP considered by Sub-Committee (Discussion & Approval) March 2025 – DP released publicly 	<ul style="list-style-type: none"> Continue drafting assurance evidence guidance Refine communication messages for DP consultation March 2025 – Audit guidance considered by Sub-Committee (Discussion) March 2025 – Issue assurance evidence guidance (at the same time as the DP)
April 2025	<ul style="list-style-type: none"> 10 April 2025 – Project Update to NZASB (Discussion) 15 April 2025 – Project Update to XRB Board (Discussion) 	<ul style="list-style-type: none"> 9 April 2025 – Project Update to NZAuASB (Discussion) Education and awareness outreach of assurance evidence guidance
May 2025	<ul style="list-style-type: none"> Hold feedback / roundtable sessions with stakeholders to hear feedback on DP – Split between Sectors & Tiers and Users and Practitioners 	<ul style="list-style-type: none"> Education and awareness outreach of assurance evidence guidance Hold feedback / roundtable sessions related to assurance issues
June 2025	<ul style="list-style-type: none"> Hold feedback / roundtable sessions with stakeholders to hear feedback on DP – Split between Sectors & Tiers and Users June 2025 – DP Period Ends 	<ul style="list-style-type: none"> Education and awareness outreach of assurance evidence guidance Hold feedback / roundtable sessions related to assurance issues
July 2025	<ul style="list-style-type: none"> Process DP feedback Develop XRB actions around possible standard amendments and guidance Sub-Committee involvement as needed 	<ul style="list-style-type: none"> The consultation and development of guidance will be a continuous and iterative process. We will continue support the implementation of the assurance standards, by engaging with stakeholders to identify issues and address concerns
August 2025	<ul style="list-style-type: none"> Process DP feedback Develop XRB actions around possible standard amendments and guidance Sub-Committee involvement as needed 12 August 2025 – Project Update to NZASB (Discussion) 	<ul style="list-style-type: none"> Assurance team involvement as needed Sub-Committee involvement as needed 14 August 2025 – Project Update to NZAuASB (Discussion)
September 2025	<ul style="list-style-type: none"> Develop ED around possible standard amendments 	<ul style="list-style-type: none"> Assurance team involvement as needed Sub-Committee involvement as needed

Month	Key Accounting Team Activities & Milestones	Key Assurance Team Activities & Milestones
	<ul style="list-style-type: none"> Sub-Committee involvement as needed to consider ED Develop communication messages and materials for ED consultation with focus on key changes, costs and benefits 18 September 2025 – Project Update to XRB Board (Discussion) 	
October 2025	<ul style="list-style-type: none"> 9 October 2025 – ED considered by NZASB (Approval) 14 October 2025 – ED considered by XRB Board (Discussion) October 2025 – ED released publicly 	<ul style="list-style-type: none"> Assurance team involvement as needed NZAuASB update as needed
November 2025	<ul style="list-style-type: none"> Hold feedback / roundtable sessions with stakeholders to test drafted reporting guidance and proposed amendments Conduct sector consultations on proposals and develop guidance 	<ul style="list-style-type: none"> Attend feedback / roundtable sessions to identify any assurance issues Assurance team involvement as needed
December 2025	<ul style="list-style-type: none"> Hold feedback / roundtable sessions with stakeholders to test drafted reporting guidance and proposed amendments Conduct sector consultations on proposals and develop guidance 	<ul style="list-style-type: none"> Attend feedback / roundtable sessions to identify any assurance issues Assurance team involvement as needed
January 2026	<ul style="list-style-type: none"> Process roundtable feedback Process updates and refinements to the amendments and guidance January 2026 – ED Period Ends 	<ul style="list-style-type: none"> Assurance team involvement as needed
February 2026	<ul style="list-style-type: none"> Process ED feedback 12 February 2026 – Project Update to NZASB (Discussion) 19 February 2026 – Project Update to XRB Board (Discussion) 	<ul style="list-style-type: none"> Assurance team involvement as needed NZAuASB update and involvement as needed
March 2026	<ul style="list-style-type: none"> Process updates and refinements to the amendments and guidance Develop communication messages and outreach material for amendments 	<ul style="list-style-type: none"> Assurance team involvement as needed
April 2026	<ul style="list-style-type: none"> Process updates and refinements to the amendments and guidance Develop communication messages and outreach material for amendments Early April 2026 – Amending Standard considered by Sub-Committee (Discussion) 23 April 2026 – Amending Standard considered by NZASB (Approval) 	<ul style="list-style-type: none"> Assurance team involvement as needed NZAuASB update and involvement as needed
May 2026	<ul style="list-style-type: none"> 20 May 2026 – Amending Standard considered by XRB Board (Discussion) 	<ul style="list-style-type: none"> Assurance team involvement as needed

Month	Key Accounting Team Activities & Milestones	Key Assurance Team Activities & Milestones
	<ul style="list-style-type: none"> 31 May 2026 – Amending Standard Gazetted (effective for periods beginning 1 July 2026) 	
June 2026 onwards	<ul style="list-style-type: none"> Education and awareness outreach of new amendments and guidance Development and release of other reporting and assurance guidance 	<ul style="list-style-type: none"> Assurance team involvement as needed

Service Performance Reporting

Jan-25	
Feb-25	
Mar-25	Discussion Paper Approved & Released
Apr-25	<i>Outreach</i>
May-25	<i>Outreach</i>
Jun-25	Discussion Paper Closes
Jul-25	
Aug-25	
Sep-25	
Oct-25	Exposure Draft Approved & Released
Nov-25	<i>Outreach</i>
Dec-25	<i>Outreach</i>
Jan-26	Exposure Draft Closes
Feb-26	
Mar-26	
Apr-26	Amending Standard Approved
May-26	Amending Standard Gazetted
Jun-26	
Jul-26	Amending Standard Mandatory From 1 July 2026
Aug-26	<i>Education & Outreach</i>
Sep-26	
Oct-26	
Nov-26	
Dec-26	

Given the proposed nature of the amendments to PBE FRS 48 would be targeted to clarify certain requirements, any changes should be mandatory as soon as possible to give maximum benefits to PBEs. Therefore, we are targeting an effective date for periods beginning 1 July 2026.

To achieve this, any amending standard would need to be published by 2 June 2026 to allow for secondary legislation to legally take effect before the beginning of the 1 July 2026 reporting period (28th day after the date of publication of the amendment in line with Section 27(1) of the Financial Reporting Act 2013).

NZAuASB Board Meeting Summary Paper

Meeting date: 12 February 2025
Subject: Service Performance Information Guidance
Date: 29 January 2025
Prepared By: Lisa Thomas

☒ Action Required

☐ For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is for the Board to provide FEEDBACK on the draft guidance on obtaining evidence for audit over service performance information following a discussion on the developing discussion paper.

Background

2. In December, the NZAuASB reflected on the priority of developing guidance to support the revised NZ AS 1 *The Audit of Service Performance Information*, with a priority on guidance relating to audit evidence.

Matters to Consider

3. In order to progress the development of staff guidance, in December, staff held one on one calls with a range of practitioners and a representative from practice review of CAANZ, the regulator in this instance. The discussions focused on getting a better understanding of what the practitioners and CAANZ considered was working well, and not so well, particularly with obtaining appropriate evidence.
4. Practitioners reported seeing an improvement in evidence available from year 1 to year 2 as systems and processes mature at clients. This reiterates that part of the issues emerging will be teething problems.
5. Staff considered different ways to develop guidance and considered:
 - (a) First time implementation guides, [for example](#) to support the implementation of the International Quality Management Standard which provides a deep dive into the standard with small discrete examples.
 - (b) The [illustrative guidance](#) to support the EER guidance developed to cover more fulsome case studies on a particular aspect of an assurance engagement
 - (c) A mixed approach covering key aspects of the standard with practical case studies [for example](#) the IESBA and APESB guidance for auditors in technology-related scenarios.
6. Based on our outreach, we experimented on how best to draft guidance with two alternatives explored:
 - a. smaller micro examples focused on a specific problem or issue arising in applying a key requirement in practice. This structure became disjointed.

- b. longer scenarios which will be informed by our discussions with practitioners. This is our preferred and recommended way forward to progress this guidance.
- 7. We recommend developing three longer scenarios, covering three types of service performance information, which have raised various challenges, but which can be grouped so that the examples are adaptable to a wide range of entities as follows:
 - a. Attendance at an event – this is a common type of measure that is reported (for example by church groups, sporting clubs, and other community-based charities) and will illustrate internal controls, external evidence and other sources of evidence.
 - b. Delivery of a good – our preliminary thinking is gathering evidence for the delivery of a product this will cover internal controls, sampling and other sources of evidence.
 - c. Delivery of a service – our preliminary thinking is this will demonstrate issues around gathering evidence over more qualitative information gathered through surveys and anecdotes, privacy and attribution.
- 8. To reflect our role as standard setter, the scenarios will centre around requirements of the auditing standards, highlighting issues applying those requirements to service performance reporting.
- 9. An example of this approach is presented in agenda item 8.2, noting that this is work in progress. We have developed a draft of scenario one, where a client is reporting attendance at an event. Based on feedback we receive, we will continue to develop the guidance and the other scenarios as outlined above
- 10. We aim to issue this guidance in conjunction with the above mentioned discussion paper in April 2025. As this is staff guidance, we are not seeking approval from the NZAuASB, rather feedback on approach, usefulness and clarity of the draft.

Recommendations

- 11. We recommend that the Board provides FEEDBACK on the plan for and approach to draft guidance on obtaining evidence for audit over service performance information.

This document is a staff working draft to obtain comments from the NZAuASB. It is still in development and should not be relied upon.

Introduction

The purpose of this non-authoritative staff guidance is to support the implementation of the XRB's auditing standards when auditing service performance information. This guidance is aimed at audit practitioners who audit service performance information.

NZ AS 1 (Revised) *The Audit of Service Performance Information* together with the full ISAs (NZ), set out the requirements to obtain reasonable assurance over service performance information. It may be challenging to apply the wider ISAs (NZ) to non-financial information. This guidance illustrates the requirements of relevant auditing standards including NZ AS 1 (Revised) and other relevant ISAs (NZ). It does not address all the requirements and is not a substitute for reading the applicable standards.

This guidance focusses on gathering audit evidence, recognizing the key role of professional judgement to determine “when is enough, enough” to obtain sufficient appropriate evidence.

The objective of the auditor is to design and perform audit procedures to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. The requirements for audit evidence are described in ISA (NZ) 500 *Audit Evidence*.

How audit evidence is obtained will vary and may come from new sources. Obtaining sufficient appropriate audit evidence for service performance information may differ compared to financial information as the nature, types and sources of available evidence may be different. The auditor will likely need to think outside the box, beyond traditional financial reporting systems, and challenge themselves to identify alternative sources not normally considered when auditing financial information.

Whilst we can't answer “when enough is enough” due to it being a matter of professional judgement, we have developed three scenarios of service performance measures to provide practical examples of the application of the standards to assist auditors:

1. Attendance at an event – this is a common type of measure that is reported (for example by church groups, sporting clubs, and other community-based charities) and will illustrate internal controls, external evidence and other sources of evidence.
2. Delivery of a good –gathering evidence for the delivery of a product which will cover internal controls, sampling and other sources of evidence.
3. Delivery of a service –this will demonstrate issues around gathering evidence over more qualitative information gathered through surveys and anecdotes, privacy and attribution.

Each scenario sets out a fact pattern to explain the circumstances and the concepts that the scenarios are designed to illustrate.

Scenario 1: Illustrating auditor judgements about sources of evidence

Fact Pattern

Your client is a not for profit organisation established to support a particular demographic to live well in the community. The organisation provides a range of services including counselling, rehabilitation and life skills coaching.

A significant element of their service performance is fundraising activities to promote the purpose of the organisation and to raise funds.

Your client has reported a service performance measure in their statement of service performance, of a golf event held during the year. The client's service performance measures include the revenue raised at the event and the number of attendees.

The event is the organisation's main fundraising event for the year and contributes approximately 20% of their annual revenue from entry fees and donations.

The number of people who attend the event is important to the organisation as it raises awareness of the organisation through publicity of the event, speakers promoting the organisation's purpose and word of mouth by attendees. The event is run primarily by volunteers.

(This example illustrates considerations relating to internal controls, external evidence and other sources of evidence)

Internal controls

ISA (NZ) 315 (Revised 2019) para 13 The auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for:

- a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and**
- b) The design of further audit procedures in accordance with ISA (NZ) 330.**

The auditor shall design and perform risk assessment procedures in a manner that is not biased towards obtaining evidence that may be corroborative or towards excluding evidence that may be contradictory.

In this example, from the risk assessment procedures performed in accordance with ISA (NZ) 315 (Revised 2019), the auditor identified the service performance measure of the event to be a significant risk of material misstatement. Therefore, the auditor obtains an understanding of the control activities for the event and evaluates the design and implementation of those controls [ISA (NZ) 315 (Revised 2019), para 26].

Like many organisations, service performance reporting and assurance is relatively new for the organisation. Therefore, the auditor is aware that controls used for the event may not be as mature as those for the financial statements and may look and operate differently to traditional controls.

The auditor is aware that whilst simple, the organisation has been implementing improvements to the internal controls to help prevent, detect and correct a material misstatement in its financial information. The auditor therefore intends on leveraging off evidence of internal controls over revenue to contribute to audit evidence over the service performance measure.

In prior years, registration for the event was paid on the day to either committee members or volunteers. However following recommendations from the auditor, all registration fees are now collected online when people register online to attend. A walkthrough is performed from a report of online registrations to the receipt of registration fees in the bank and agreed to the revenue disclosed in the general ledger and statement of service performance. In testing revenue, a sample

(using materiality set for the financial statements) of the online registrations are agreed to the bank statement.

From the auditor's review of minutes of committee meetings, they observed that a reconciliation of the bank statement and financial records are presented and approved at each committee meeting.

Through enquire the client informed the auditor that they know the number of people who attended the event based on the revenue received. Exercising professional scepticism however, the auditor considered that there may be people who registered and paid online but did not attend the event on the day.

The auditor considered it was not practical to test the reliability of this information by confirming with participants whether they attended on the day. As an alternative, the auditor will use the revenue information for an analytical procedure over attendance numbers.

Having not identified any further "traditional controls", the auditor considered what processes are used to run the event which may provide a source of control evidence over attendance. The auditor identified that score cards are collected from participants at the end of the round to determine which person won. From enquiry, the auditor learnt that cards are collected from each player by a committee member who tallies the score and records the players results to determine prizes. The results are read out and available for players to view after the game.

The results sheet will provide corroborating evidence against registration information of those that attended on the day.

External Evidence

ISA (NZ) 500 para 7 When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence, including information obtained from an external information source.

ISA (NZ) 500 requires the auditor to consider the relevance and reliability of information including external information. Two main issues with external information sources for service performance information is that it may be difficult:

1. To identify an external information source to verify a service performance measure; or
2. To test the reliability of an external source of information.

Whilst ISA (NZ) 500 doesn't explicitly require external information to be used as evidence, information obtained from an independent source is generally considered more reliable [A36]. Greater reliability increases the persuasiveness of evidence and, if relevant, may reduce the quantity of audit evidence the auditor requires.

As a significant event for the organisation, the auditor considered areas of the event where there may be a financial impact and provide an external source of information.

Through enquiry, the auditor was able to identify that the organisation incurred a subsidised cost for the venue, and the event was catered, with a food platter being provided for each player which was invoiced for by an external catering company.

In considering the factors important for relevance and reliability of information obtained, the auditor considered that invoices received from independent third parties are generally accepted as reliable information and per ISA (NZ) 200¹ para A24, has no reason to believe they are not genuine.

From inspection of the invoice for the venue hire, the auditor was able to verify the date the event took place. The invoice of the total catering cost along with an email from the caterers confirming the cost per platter will be used to prepare an analytical procedure, discussed below. The information will be used to corroborate the number of people who attended on the day.

Other Sources of Evidence

ISA (NZ) 500 para 6, NZA12.1 The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate evidence.

More assurance is ordinarily obtained from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually. For example, corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from audit evidence that is generated internally, such as evidence existing within the accounting records, minutes of meetings, or a representation from those charged with governance.

During the risk assessment procedures, in their inspection of the minutes of committee meetings, the auditor identified several approved actions for the golf event. These entries provided evidence of occurrence of the event and corroborated specific details such as the day of the event from the supplier invoice for the venue.

Using audit evidence obtained during risk assessment procedures and external evidence, the auditor obtained sources of information that in their professional judgement was sufficiently reliable to perform analytical procedures. The analytical procedures prepared in accordance with ISA (NZ) 520² were as follows:

- A simple comparison of the revenue/number of online entries to the number of players on the result sheet. This analytical procedure is used to corroborate both the revenue figure disclosed and the number of people attending the event. This resulted in a difference of 8.
- Dividing the total cost of the catering platters by the quoted cost per platter to obtain the number of people attending the event.

The number of persons reported attending the event was 148. Developing an expectation per ISA (NZ) 520, para 5 (c), the auditor calculates that the total people attending the event were:

Entry fee revenue = 148 persons

Players card results = 140 persons

Catering costs = 144 persons

Through enquiry of a committee member on the variances, the auditor learns that the number of disclosed persons attended was based on revenue figures, the players card results were lower than expected as 6 players did not attend and 2 people did not submit their cards and catering numbers were confirmed a week prior to the event, where last minute changes were not adjusted for.

¹ ISA (NZ) 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)

² ISA (NZ) 520 Analytical Procedures

Exercising professional judgement, the auditor concluded that per ISA (NZ) 520 para 5 (d) the difference between the recorded number of persons attending of 148 and the expected values did not require further investigation. Although the number of persons attending is important to users, the variance of numbers would not impact their decision making.

Had the difference been material or a precise attendance number be required, the auditor may have considered the following actions:

1. Plan to attend future events and performing a count adopting the principles of stocktake procedures in ISA (NZ) 501 *Audit Evidence – Specific Considerations for Selected Items*. This is unlikely to be cost effective for an annual event. Had the event been a reoccurring event throughout the year, and a material number to users, this may have been a preferred option.
2. Request the client to amend the disclosure e.g. that the event has attended by up to 140 people.
3. Consider the impact on the audit opinion.



NZAuASB Board Meeting Summary Paper

Meeting date: 12 February 2025

Subject: Going Concern

Date: 28 January 2025

Prepared By: Sharon Walker

☐ Action Required

☒ For Information Purposes Only

Project purpose	<u>Revise ISA 570 (Revised), <i>Going Concern</i> to:</u> <ul style="list-style-type: none"> Promote consistent practice and behaviour; Strengthen the auditor's evaluation of management's assessment of going concern; and Enhance transparency with respect to the auditor's responsibilities and work related to going concern.
Cost/benefit considerations	Refer issues paper.
Project priority	Medium

Agenda Item Objectives

- The objective of this agenda item is:
 - To update the Board on changes made to the IAASB's going concern standard since the exposure draft, including how XRB recommendations were dealt with; and
 - For the Board to discuss whether to adopt ISA 570 (Revised 2024), and include the NZ changes proposed and consulted on by the XRB in New Zealand pending PIOB certification.
 - To update the Board on plans for guidance, if the Board determines to adopt the standard in New Zealand.

Background

- ISA 570 (Revised 2024) *Going Concern* was approved by the IAASB at its December 2024 meeting. The IAASB Approved Text is available [here](#). ISA 570 (Revised 2024) will be issued in April subject to PIOB certification. The revised standard is effective for audits of financial statements for periods beginning on or after 15 December 2026.

3. Internationally, there was broad support that the ED was responsive to the public interest. Going concern is an area in which user expectations often exceed the auditor's work effort under the extant standard. However, respondents also expressed the view that broader considerations are also critical to support the public interest including:
 - Coordinated actions from all stakeholders in the financial reporting ecosystem to establish trust and narrow the expectation gap.
 - Improvements to the financial reporting framework for going concern, including enhancements to the requirements for management's disclosures in relation to going concern.
4. The IAASB issued its [exposure draft](#) in April 2023 with a 120 day exposure period. The NZ consultation document is available [here](#).
5. The XRB's walk-through [webcast](#) of the proposals is available to remind the NZAuASB of the proposals. We consulted concurrently in New Zealand with proposed NZ modifications to
 - Reflect NZ legal and regulatory arrangements (i.e., directors are responsible for the preparation of the financial statements).
 - Amend references to listed entities in the proposed ISA to instead refer to FMC reporting entities considered to have a higher level of public accountability.
6. To inform the XRB's submission, our outreach activities included:
 - A discussion with XRAP.
 - A virtual feedback forum where we discussed in more detail the proposed changes and obtained feedback through polling and discussion. More than 30 participants, mostly practitioners, participated on the day.
 - A panel discussion, "getting the balance right" to explore the various perspectives – user/investor, preparer and auditor – on going concern facilitated by Greg Schollum, with an economic overview by Sharon Zollner (ANZ Chief Economist), and panellists, Karen Shires (PwC), Rachael Walsh (Board Director NZX) and Lance Wiggs (Director Punakaiki Fund). Invited guests included a range of practitioner, preparer, user, academic and lawyers, with an interest in the topic and around 40 attendees were present on the day.
7. We also received three written responses to the consultation (available [here](#)).
8. The main messages in the XRB submission and analysis of how the XRB's concerns were addressed is included in the issues paper. Based on the analysis, the staff view is that the IAASB has been responsive to the comments and suggestions made by the XRB.
9. The XRB consultation proposed NZ specific amendments related to:
 - NZ regulatory changes that reflect the role of those charged with governance as responsible for the financial statements.
 - Application of differential requirements on the auditor of listed entities in the IAASB ED would apply to FMC reporting entities considered to have a higher level of public accountability

10. Stakeholders were supportive of the proposed NZ amendments which will be marked and presented to the NZAuASB at a future meeting (subject to Board agreement to adopt the IAASB approved standard).
11. Cost/benefit considerations of adopting the IAASB approved standard are addressed in the issues paper. Anecdotal feedback suggests that adopting the revisions will reflect best practice that already exists in New Zealand, accordingly we do not expect to see a significant cost increase.
12. The AUASB is expected to consider whether the IAASB approved standard is fit for adoption in Australia at its February or March 2025 meeting.
13. The Accounting Standards and Auditing and Assurance Standards teams will work together to develop staff guidance to support the implementation of the revised going concern auditing standard (subject to the NZAuASB's decision to adopt the IAASB approved standard).
14. Auditing and Assurance Standards staff will work with the staff of the Office of the AUASB to update the flowchart linking going concern consideration and types of audit opinions (refer [\[NZ\] Appendix 2 of extant ISA \(NZ\) 570 \(Revised\)](#)) for publication with a revised going concern auditing standard (subject to the NZAuASB's decision to adopt).

Recommendation

15. We recommend:
 - That the XRB's key submission points have been dealt with in the final IAASB standard.
 - That the XRB adopt ISA 570 (Revised 2024) based on our analysis of the costs and benefits, and amended to:
 - Reflect NZ legal and regulatory arrangements.
 - Apply differential requirements to FMC reporting entities considered to have a higher level of public accountability.
 - Note and provide feedback on proposed plans for guidance.

Structure of this memo

1. This memo includes the following sections.

- [XRB submission and how significant comments were addressed](#)
- [NZ specific considerations](#)
- [Cost/benefit considerations](#)
- [Supporting guidance](#)

XRB Submission and how significant comments were addressed

2. The main messages in the XRB submission (available [here](#)) were:

- Support for the proposals that promote consistent practice and facilitate effective responses to identified risks of material misstatement.
- Support for the proposed timeline over which the going concern assessment is made. This proposal will bring the international standard in line with existing requirements in New Zealand. (Refer paragraphs 4-7)
- Support for enhanced transparency in the auditor's report but concern that the proposals may widen the expectation gap: (Refer paragraphs 8-11)
 - Without a corresponding statement from management or those charged with governance, the proposals may lead to a perceived shifting of the responsibility to the auditor.
 - The wording of the going concern paragraph where no issues exist, may be too confirmatory, i.e., it may be misinterpreted as guaranteeing the future viability of the entity.
 - Including a going concern paragraph in all audit reports may undermine the information value and may cause unintended consequences, including readers not noting information that signals an issue with the going concern assessment
 - Recommendation to include additional statements in the going concern paragraph that:
 - The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report.
 - Future events or conditions may cause the entity to cease to continue as a going concern.
- Support for the inclusion of definitions of key terms but concern that the proposed definition of material uncertainty is not sufficiently clear to enhance understandability and minimise the likelihood of differing interpretations. (Refer paragraphs 12-13)
- Support for the proposed additional requirements to enhance the auditor's evaluation of management's going concern assessment but concern that further guidance on work effort is necessary so that the required audit procedures are proportionate to the assessed risks. (Refer paragraphs 14-16)
- When management's plans for future actions include financial support, clarification of the nature of work and the impact when sufficient appropriate

audit evidence about other parties' intent to provide financial support cannot be obtained. (Refer paragraphs 17-19)

- Opposition to extending the proposed differential requirements to audits of entities other than listed entities. (Refer paragraphs 20-23)
3. Below staff analyse the extent to which we consider the XRB's concerns have been addressed.

Proposed timeline over which the going concern assessment is made.

4. The ED proposed to change the commencement date of the twelve-month period of management's assessment of going concern from the date of the financial statements to the date of approval of the financial statements.
5. In its submission, the XRB supported the proposal, noting that the proposal is consistent with current requirements in New Zealand.
6. The IAASB determined to retain the requirement as proposed. ([IAASB Approved Text](#), paragraph 21)
7. Clarification was made to the ED requirement to distinguish between management refusing to make an assessment and, having made an assessment, management is unwilling to extend the assessment. This is because the actions of the auditor are different for each circumstance. ([IAASB Approved Text](#), paragraphs 21-23)

Explicit Statements About Going Concern in the Auditor's Report

8. The ED proposed to include explicit statements about going concern in the auditor's report.
9. The XRB was supportive of the proposed enhanced disclosures but expressed concern that the proposed explicit statements may widen the expectation gap. Respondents (including the XRB) recommended including additional statements in the auditor's report that:
 - The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report.
 - Future events or conditions may cause the entity to cease to continue as a going concern.
10. The IAASB determined the explicit statements in the auditor's report about going concern should be retained but refined, so they convey relevant information to intended users of audited financial statements about the auditor's responsibilities and work related to going concern in a concise and understandable manner.
11. Changes made in finalising the revised ISA include:
 - Emphasis that the explicit statements about going concern represent the minimum information presented and that the auditor may provide additional information to supplement the required statements, for example reference to where the respective responsibilities of those with responsibility for the financial statements and of the auditor in relation to going concern are described. ([IAASB Approved Text](#), paragraph A79)
 - Clarification that the auditor's conclusion on the appropriateness of management's going concern basis of accounting is provided in the context of the audit of the financial statements as a whole and in forming the auditor's opinion thereon. (see Table 1)
 - Additional contextual statements required: (See table 1)

- Based on the audit evidence obtained, the auditor has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.

Table 1

Circumstance	Final (changes from ED underlined)
Going concern basis of accounting appropriate, <i>no material uncertainty</i>	<p>Under the heading "Going Concern"¹</p> <p>(a) State that the auditor:</p> <p>(i) <u>In the context of the audit of the financial statements as a whole and in forming the opinion thereon, concluded that management's use of the going concern basis is appropriate; and</u></p> <p>(ii) Based on the audit evidence obtained, has not identified a material uncertainty related to events or conditions that may cast significant doubt</p> <p>(iii) <u>Auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.</u></p> <p>(b) For an audit of financial statements of a listed entity, if events or conditions have been identified but the auditor concludes no material uncertainty exists:</p> <p>(i) Include a reference to the related disclosure</p> <p>(ii) Describe how the auditor evaluated management's assessment</p>
Going concern basis of accounting appropriate, <i>material uncertainty exists</i> , adequate disclosure is made in the financial statements	<p>Express an unmodified opinion and under the heading "Material Uncertainty Related to Going Concern"²</p> <p>(a) Include a reference to the related disclosure</p> <p>(b) For an audit of financial statements of a listed entity, describe how the auditor evaluated management's assessment</p> <p>(c) State events or conditions indicate that a material uncertainty may exist</p> <p>(d) State that:</p> <p>(i) State that the auditor's opinion is not modified in respect of the matter</p> <p>(ii) <u>In the context of the audit of the financial statements as a whole, the auditor concluded that management's use of the going concern basis is appropriate;</u></p> <p>(iii) <u>The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.</u></p>

¹ [IAASB Approved Text](#), paragraph 34

² [IAASB Approved Text](#), paragraph 35

Definition of material uncertainty

12. The ED proposed a definition of material uncertainty (see Table 2). The XRB supported including defining the term *material uncertainty* and clarifying the meaning of *may cast significant doubt*. The XRB recommended:
- the definition be revised to refer to management's plans for future actions, as this is important in the auditor's conclusion about whether a material uncertainty exists.
 - Reference to disclosure be removed as the auditor's determination whether a material uncertainty exists precedes the auditor's consideration of the adequacy of disclosures.
13. In finalising the standard, the IAASB revised the definition of material uncertainty, implementing the XRB recommendations.

Table 2

Proposed definition	Final definition (IAASB Approved Text , paragraph 10)
<p>Material Uncertainty (Related to Going Concern)—An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern where the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's professional judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A4–A5)</p> <p>(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or</p> <p>(b) In the case of a compliance framework, the financial statements not to be misleading.</p>	<p>Material Uncertainty (Related to Going Concern)—An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. "May cast significant doubt" is used to refer to circumstances where the magnitude of the potential impact and likelihood of occurrence of the identified events or conditions are such that, unless management's plans for future actions mitigate their effects, the entity may be unable to realize its assets and discharge its liabilities in the normal course of business and continue its operations for the foreseeable future. (Ref: Para. A5–A6)</p>

Scalability

14. The ED proposed to require the auditor to design and perform audit procedures to evaluate management's assessment of going concern in all circumstances irrespective of whether events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern.
15. In its submission the XRB encouraged the IAASB to clarify if and how the work effort may be adjusted to be proportionate to the audit client's going concern risk.
16. Addressing this concern in finalising the standard, the IAASB has included examples in application material to address scalability ([IAASB Approved Text](#), paragraphs A35, A39 and A46)

Intent and ability of other parties to provide financial support

17. The ED proposed, as part of evaluating management's plans for future actions, the auditor evaluate the intent and ability of other parties to maintain or provide the necessary financial support.
18. While agreeing that, in evaluating management's plans for future actions, the auditor needs to understand the intent and ability of other parties to maintain or provide the necessary financial support, the XRB expressed concern that it is often difficult to obtain appropriate evidence. The XRB encouraged the IAASB to develop additional application material to clarify the nature of work and the impact when the necessary corroborating information cannot be obtained.
19. The IAASB included examples in the application material of how the auditor might obtain appropriate audit evidence about intent and ability. ([IAASB Approved Text](#), paragraphs A63-A64)

Application of differential requirements

20. The ED questioned whether the proposed differential requirements should be extended to apply to audits of financial statements of entities other than listed entities.
21. In its submission, the XRB did not express support for extending the proposals to also apply to audits of financial statements of entities other than listed entities at this time and recommended that this be further considered in the context of public interest entities (PIEs) as part of the IAASB's PIE track 2 project.
22. In approving ISA 570 (Revised 2024), the IAASB has not extended the application of the differential requirements beyond listed entities. The IAASB does however intend to make conforming amendments to the newly approved standard extending application of the differential requirements to publicly traded entities when the PIE track 2 project is finalised.
23. XRB staff will consider the implications of this decision when further considering the impact of the PIE track 2 project in New Zealand.

Responsiveness to XRB concerns

24. Based on the analysis above, the staff view is that the IAASB has been responsive to the comments and suggestions made by the XRB.

Question for the NZAuASB

1. Does the Board agree with the staff analysis that the IAASB approved standard is responsive to XRB concerns?

Other changes made by the IAASB in finalising ISA 570 (Revised 2024)

25. In response to feedback received from other stakeholders, in finalising the standard, the IAASB has:
 - Clarified, that the auditor always needs to evaluate management's assessment even when going concern is considered low risk. The extent of work effort required to evaluate management's assessment is responsive to the risk and builds on ISA 315 (Revised 2019).
 - Bifurcated the requirement for the auditor to conclude whether a material uncertainty exists. The auditor firstly concludes whether the auditor has

sufficient appropriate evidence to conclude that the use of the going concern basis of accounting is appropriate. The auditor then considers management's plans and concludes whether a material uncertainty exists.

- Included an optional sub-heading "no material uncertainty related to going concern" in the auditor's report under the heading "going concern." The IAASB view is that this is useful signposting to aid users' understanding.
 - Included additional application material specific to considerations in the public sector.
 - Added requirements for the auditor to document significant judgements made relating to the auditor's consideration of going concern and determination of the adequacy of management's disclosures.
26. Staff believes that the changes made in finalising the standard are consistent with feedback received on the ED and is supportive of the changes.

NZ specific considerations

27. The XRB consultation proposed NZ specific amendments for which the NZAuASB agreed the compelling reason test had been met (refer [April 2023 meeting](#), agenda item 8).
28. The proposed NZ amendments related to:
- NZ regulatory changes that reflect the role of those charged with governance as responsible for the financial statements.
 - Application of differential requirements on the auditor of listed entities in the IAASB ED would apply to FMC reporting entities considered to have a higher level of public accountability.
29. The majority of stakeholders that responded to this question in the consultation or through the outreach activities were supportive of the proposed NZ amendments.
30. Proposed NZ amendments will be marked and presented to the NZAuASB at a future meeting subject to Board agreement to adopt the IAASB approved standard.

Cost/benefit considerations

31. The concept of going concern is crucial in financial reporting and has significant implications for capital markets and overall trust and confidence in the market. The going concern basis is fundamental in the preparation of financial statements and the entity's ability to continue as a going concern is important for users of the financial statements.
32. The current economic environment is one in which going concern assessments are very relevant. There has been an increase in business closures. Rising costs and borrowing rates are putting pressure on businesses, with many struggling to maintain profitability. Changes in consumer behaviour following the pandemic are affecting businesses particularly those that rely on traditional retail and in-person services.
33. Going concern is an important judgement for both the preparer and the auditor. From an assurance perspective, the revised standard is about improving the rigour on which the auditor evaluates management's assessment of the entity's ability to continue as a going concern and the communication to users of the report about how the auditor has evaluated management's assessment to enable users to make informed decisions.
34. Going concern is highlighted as an area of focus for the FMA in its audit quality monitoring³. The FMA notes, "a common theme in both going concern and fraud issues is

³ Refer to pages 11-14 of the [FMA's 2024 audit quality monitoring report](#)

the gap between what users of financial statements expect from auditors, and what auditors are required to do in accordance with the Auditing Standards.” Going concern and the response to fraud in the audit of financial statements are recurrent areas where the FMA identifies findings. Although not reflective of a systemic issue, and often isolated to individual audits and circumstances, the potential impact of poorly executing audit procedures can be significant.

35. Adoption of ISA 570 (Revised 2024) would be in line with the [NZAuASB Policy and Process for International Conformance and Harmonisation of Standards](#).
36. Benefits of adopting the IAASB approved standard include:
 - Consistent practice and behaviour and facilitation of effective responses to identified risks of material misstatement related to going concern;
 - Strengthening the auditor’s evaluation of management’s assessment of going concern; and
 - Enhancing transparency to users of the report with respect to the auditor’s responsibilities and work related to going concern.
37. Costs associated with adopting the revised standard in New Zealand include updating of firm methodologies, templates and education. In relation to the work effort, our outreach indicated that practitioners consider that they are already doing the work in line with the enhanced requirements. This anecdotal feedback suggests that adopting the revisions will reflect best practice that already exists in New Zealand and therefore we do not expect to see a significant increase. With the new requirements, however, we expect that the auditor’s documentation about going concern considerations may be more detailed.
38. Staff considers the enhanced value of the information provided will offset any potential cost increase although, as noted in the preceding paragraph, we do not expect to see a significant increase in cost.
39. Preparers can help to manage audit costs by preparing robust documentation that supports their assessment of the entity’s ability to continue as a going concern (in accordance with the applicable accounting standards).
40. There are reputational costs associated with not adopting the IAASB approved standard which include the public interest cost of differing from international standards (i.e., the impact on trust and confidence of New Zealand audit reports in international markets).

Question for the NZAuASB

2. Does the Board agree with the recommendation to adopt the IAASB approved standard?

Supporting Guidance

41. A paper exploring the revisions and interaction between the reporting requirements and the revised auditing requirements was discussed by the NZASB and the NZAuASB at their respective December meetings.
42. NZAuASB considered there is merit in the XRB developing guidance for the preparers to emphasise key messages to preparers.
43. The Accounting Standards and Auditing and Assurance Standards teams will work together to develop staff guidance to support the implementation of the revised going concern auditing standard (subject to the NZAuASB’s decision to adopt the IAASB approved standard).

44. Staff guidance will be published at the same time as the revised auditing standard which is expected to be approved at the June NZAuASB meeting (subject to the NZAuASB's decision to adopt the IAASB approved standard).

Going concern considerations and types of audit opinions

45. Extant ISA (NZ) 570 (Revised), *Going Concern*, includes a flow chart linking going concern considerations and types of audit opinions ([ISA \(NZ\) 570](#), [\[NZ\] Appendix 2](#)) which was developed jointly with the staff of the Office of the AUASB.
46. We plan to work with the staff of the Office of the AUASB to update this flow chart for publication with a revised going concern auditing standard (subject to the NZAuASB's decision to adopt).

NZAuASB Board Meeting Summary Paper

Meeting date: 12 February 2025
Subject: Track 2 Public Interest Entity
Date: 22 January 2025
Prepared By: Anna Herlender

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

1. The objective of this agenda item is for the Board to:
 - AGREE whether the XRB should submit on limited consultation expected to be issued by the IAASB in February.
 - PROVIDE feedback on options to deal with the term “publicly traded entity” in New Zealand.

Background

2. In January 2024 the International Auditing and Assurance Standards Board (IAASB) issued its [exposure draft](#) of proposed narrow scope amendments to the international auditing and assurance standards as a result of revisions to the definitions of listed entity and public interest entity (PIE) in the international Code of Ethics.
3. The objectives of the IAASB were to achieve convergence to the greatest extent possible between the definitions and key concepts used in the international auditing and assurance and ethical standards, and to determine whether, and the extent to which, the applicability of the existing differential requirements should be expanded to apply to public interest entities.
4. The XRB in their [submission](#) supported aligning the definition of public interest entity with the IESBA definition. We agreed it makes sense for the same term to be used and defined in the same way in international standards.

International Update

5. In December 2024, the IAASB voted not to include the definition of “public interest entity” into the IAASB’s standards. Based on feedback received, the IAASB is concerned that the proposals would be inoperable globally, based on recent clarifications by the IESBA about use of the mandatory categories of PIE by jurisdictions. The concern relates to instances where jurisdictions have not adopted the IESBA PIE definition or have removed a mandatory PIE category from the definition.
6. The IAASB’s approach is to set a global baseline, i.e., the IAASB’s position is that there is no ability to assert compliance with ISAs if a jurisdiction has not adopted the PIE definition or has removed a mandatory PIE category from the definition. This differs from the IESBA’s approach which allows jurisdictions more flexibility depending on their circumstances.
7. The IAASB discussed the importance of continuing to monitor the uptake of the IESBA’s PIE definition globally, and to pursue expanding the differential requirements to PIEs when there is an established global baseline of jurisdictions that have adopted the IESBA’s PIE definition.

8. In the interim, the IAASB voted to adopt term “publicly traded entity” to replace “listed entity”. The Pre-final text is included [here](#).
9. However, the IAASB also agreed to undertake limited consultation to seek feedback on the phased approach for further aligning the use of and definition of PIE with the IESBA’s Code prior to seeking PIOB certification.
10. The IAASB is expected to issue a consultation document in February 2025, open for 45 days.

Matters for consideration

11. The planned IAASB consultation is mainly to explain the decision and propose a timeline for further consideration of adopting the term PIE. In New Zealand, we have already adopted the revised IESBA PIE definition in the independence requirements and have widened the scope of differential auditing requirements to apply to FMC entities with higher levels of public accountability. We do not recommend that the XRB prepare a submission to this limited consultation as this is not a high priority for us. Rather we will continue to monitor the developments.

Domestic Matters

12. In 2024, the XRB issued a domestic consultation of proposals to adopt the NZ definition of public interest entity into the assurance standards and expand application of the differential auditing requirements to all New Zealand public interest entities. The PIE definition in New Zealand includes all tier 1 reporting entities, including across the public sector and not-for-profit sectors. In August 2024, the NZAuASB discussed the feedback received on the NZ consultation. This feedback highlighted concerns that the cost of the proposals would exceed the benefits.
13. In light of the feedback received, the NZAuASB’s preference was to retain the current NZ settings, i.e., the stricter independence requirements apply to all tier 1 reporting entities, including public benefit entities, and the differential auditing requirements apply to FMC reporting entities considered to have a higher level of public accountability (FMC HLPAs), as these are considered fit for purpose for the New Zealand market. This preference was pending a final decision by the IAASB.
14. Previous discussions did not emphasize the impact of using the term publicly traded entity (PTE) in the auditing standards in New Zealand. In light of the latest international developments, the accompanying Issues Paper explores what the IAASB’s decision means for New Zealand and recommends that New Zealand auditing standards continue to refer to FMC HLPAs entities.

Recommendation

15. We recommend the Board:
 - AGREE not to submit feedback on IAASB’s limited consultation
 - PROVIDE feedback on the options identified in the Issues Paper.

Subject: PIEs Track 2 Consequences for New Zealand

1. This Issues Paper explores the impact of the IAASB's decision to change "listed entities" to "publicly traded entities" (PTE) for New Zealand.
2. The [Pre-final text](#) of an amending standard approved by the IAASB in December, pending the outcome of the limited consultation, includes the following definition of PTE:

"Publicly traded entity – An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

For purposes of complying with the ISQMs, if law, regulation or professional requirements define more explicitly a publicly traded entity in a specific jurisdiction, for example for purposes of defining entities that are considered public interest entities, by making reference to specific public markets for trading securities, incorporating exemptions for specific types of entities, or setting size criteria, the firm applies that more explicit definition".

3. This PTE definition is aligned with the definition in the Code of Ethics.
4. The XRB previously introduced the IESBA's revised PIE definition, including the concept and definition of a PTE into [PES 1](#) (in para R400.22). A PTE is included as one of the categories of PIEs for the purpose of the independence requirements.

Why the change to publicly traded entities

5. The international standard setters have moved away from the term "listed entities", expanding the scope to "publicly traded entity" to encompass a wider range of entities. i.e., not limited only entities that have shares, stocks, or debt traded on formal exchanges, but also those trading on second-tier markets or over-the-counter platforms. The definition explicitly states that the trading activities must occur through a publicly accessible market mechanism, such as an auction-based or electronic exchange. As a result, more entities are now classified as publicly traded entities compared to listed entities. However, it's worth noting that in New Zealand, the use of FMC HLPAs means that a greater number of entities are already being captured.

What is a PTE

6. Staff researched and the NZAuASB explored what a PTE means and what New Zealand entities could be captured at its June 2023 meeting, when discussing the ethical requirements in [PES 1](#). This was informed by the IESBA's [staff questions and answers](#) that clarified that the criterion "traded through a publicly accessible market mechanism" means that the trading of an entity's financial instruments is through a trading platform or system that is available to the public. Such a mechanism can be either a primary or secondary stock exchange or an over-the-counter platform.
7. However, it is not intended to capture entities for which the only way to trade their financial instruments is through privately negotiated agreements, or entities whose listing on the market mechanism is only for tax or regulatory compliance.
8. For instance, an entity whose listed debt securities are offered only to institutional investors would not meet the definition of PTE. On the other hand, an entity whose financial instruments are traded through an over-the-counter platform by the public, is a PTE even if the volume of trade is low, assuming there is no refinement of the PTE category.

Possible examples of PTEs who are not FMC HLPAs

9. Based on our research we believe that it is theoretically possible for there to be entities who are publicly traded entities but not FMC HLPAs. We considered entities such as:
 - a. Companies with under 50 shareholders making a regulated offer under the Financial Markets Conduct Act 2013. Such companies, even if their shares are traded on a publicly accessible market mechanism, will not meet the criteria for being classified as an FMC HLPAs as they have less than 50 shareholders but they could be classified as a PTE.
 - b. Companies trading on the unlisted exchange. Under the *Financial Markets Conduct (Unlisted Market) Regulations 2015*, issuers listed on this exchange (around 19) prepare financial statements in accordance with GAAP and which are audited by a qualified auditor. We reviewed five financial statements from entities listed on the exchange, all were group financial statements prepared under Tier 1 IFRS. Of these, four regarded themselves as FMC reporting entities, however they did not mention if they were FMC HLPAs. These companies would meet the definition of a PTE, as Unlisted is a publicly accessible market mechanism.
 - c. Entities listed on the 'public market' on the Catalist Marketplace. Similar to Unlisted, under the *Financial Markets Conduct (Catalist Public Market) Regulations 2021* an issuer on this exchange must prepare financial statements prepared in accordance with GAAP and have them audited by a qualified auditor. This is a relatively new exchange, there are a total of four companies listed on this exchange which shares available for purchase
 - d. Entities raising funds through crowdfunders. While we saw some companies had initially raised funds through a crowdfunding platform, we were unable to determine whether shares or debt instruments were subsequently traded on that platform.
 - e. The FMA has the power to grant financial reporting exemptions and vary public accountability designations (under section 461L(b) of the FMC Act). It is possible that these entities receiving an exemption could have instruments available to be traded through a publicly accessible market mechanism and thus be deemed a PTE. For example:
 - i. Small Co-operatives under the Financial Markets Conduct (Small Co-operatives) Exemption Notice 2022.
 - ii. Irrigation companies under the Financial Markets Conduct (Irrigation Companies) Exemption Notice 2022.

.Use of PTE in the auditing standards

10. Differential auditing requirements only differ in respect to communication and quality reviews, i.e. there are no differential performance requirements on the basis that the standards achieve reasonable assurance. Examples of differential requirements include, reporting of key audit matters, additional communication requirements to those charged with governance and in the auditor's report and requirements for an engagement quality reviewer.
11. In New Zealand differential auditing requirements currently apply to FMC reporting entities considered to have a higher level of public accountability (FMC HLPAs), which includes listed entities.
12. The XRB consulted on the need to expand the differential auditing requirements to apply to public interest entities (PIEs). Feedback received raised concern at the cost of extending such requirements to all NZ PIEs. The NZAuASB reflected that the current requirements targeted at FMC HLPAs are fit for purpose for New Zealand context.

13. However, a targeted discussion on the need for the PTE definition was not the focus of these discussions. With the international decision to move to PTE as an interim step, not PIE, this paper considers possible options for New Zealand.

Option 1: Continue with FMC HLPAs, with no reference to PTEs

14. Option 1 would be the status quo, retaining the scope of differential requirements to apply to FMC HLPAs in auditing standards.
15. The benefits of this option would be capturing those entities that are considered of significant public interest to the regulator in New Zealand (through section 461K of the FMC Act).
16. The disadvantage is that there may be PTEs that are not FMC HLPAs entities. Therefore, there is a theoretical risk that if we continue with FMC HLPAs definition, we might not be capturing all entities in line with global requirements.
17. In addition, this approach would result in a difference compared to PES 1, where PTEs are included in the differential independence requirements. There is a risk that there might be some entities captured by PTE in the Code's PIE definition, but they would not be included in differential reporting requirements in auditing standards.

Option 2: Add PTEs in addition to FMC HLPAs

18. Option 2 would be to require that differential requirements apply to FMC HLPAs and PTEs.
19. The benefit would be that there is a clear link with international standards definition (as PTEs would be specifically included).
20. The disadvantage could be adding unnecessary costs to audits of entities that may not be considered to have significant public accountability by the regulator in New Zealand.
21. Our research in June 2023 showed that in New Zealand it may be unclear what entities, that are not FMC HLPAs, would fall in the category of PTEs and possible number of these entities is rather low. Due to the lack of the clarity what falls in PTE category, there is a risk of inconsistent application of this definition by auditors.
22. If this option were pursued, the XRB may need to issue guidance to clarify who is a PTE in New Zealand (in line with the IESBA's staff Q&A, local jurisdictions can further clarify the definition in the local context).

Recommendation

23. Staff recommends that the Board agrees on Option 1, as this option is clear, based on recognition of significance of public accountability of an entity. It is pragmatic option that fits the New Zealand context.

We ask for Board views on the presented options.

NZAuASB Board Meeting Summary Paper

Meeting date: 12 February 2025
Subject: User Research
Date: 27 January 2025
Prepared By: Misha Pieters and Karen Tipper

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

1. For the Board to CONSIDER staff's recommendation to conduct targeted user research on climate and greenhouse gas disclosures assurance.

Background

2. The XRB is exploring a co-ordinated approach to commissioning research, to inform our standard setting work and provide thought leadership, across the organisation. This recognises the need to continue to expand our understanding of user needs and opportunities to research preparer, governance and assurance practitioner perspectives. This work is ongoing, informed by recent research that we have commissioned. Our aim is to plan ahead and develop a strategy to ensure we are more co-ordinated across the XRB. It may take time for the XRB's strategic plan to be developed and confirmed for the next period of the statement of the intent, 2025-2030.
3. In the meanwhile, we are exploring opportunities relevant to our assurance work plan. On the 2025/26 prioritisation plan, in relation to monitoring assurance over GHG emission disclosures, we had planned to explore user needs and the value of adding to assurance reports.
4. We reflected on the success of the research report that explored [Audit Committee Chairs perspectives](#) on trust and confidence and are considering commissioning research to conduct interviews of users to gauge users' perspectives on assurance.
5. A growing awareness of climate change and corporate responsibility means that investors, regulators, and other stakeholders are demanding transparency on sustainability performance. In New Zealand, we now have mandatory climate reporting with the first mandatory GHG assurance reports under this regime expected from April 2025.
6. A study undertaken by Moroney et al. (2012) examined the quality of environmental reporting by Australian companies. They compared the quality of assured and non-assured environmental reports to assess if there were differences in the quality of disclosure. Their study indicates that assured environmental reports achieve a higher quality score than non-assured environmental reports. They also found that the quality of environmental reports improves over time i.e., reporters learn and this learning is also partly responsible for improvements in quality.

Matters to Consider

7. We want to explore the perceptions of investors/users regarding the role of assurance in preserving trust and confidence in climate reporting to inform the XRB's longer term strategy on assurance over non-financial information.

8. Our objectives for such research would be to explore perceptions of users, by way of scheduled interviews, on the role of assurance to enhance trust and confidence in climate reports to inform XRB's standard setting priorities and approach to assurance over non-financial reporting.
9. The plan would be to conduct interviews with at least twenty users including institutional investors, retail investors, sustainability information analysts, and non-governmental organisations (NGOs).
10. We recommend that a useful time to conduct these interviews would be in May/June 2025, when the first mandatory assurance reports for climate reporting entities are in the marketplace (this would be for December 2024 year ends).
11. This research would supplement insights we are tracking from our review of assurance reports, that we have been reporting to the board periodically. We intend to continue this tracking and to publish our snapshot. However research by way of interviews with users will provide deeper insights and assist us understand how the tools in assurance reporting are being used or understood and wider perspectives on what users are looking for and why.
12. We have identified the following potential interview questions:
 - a. Assurance over GHG emissions disclosure is mandatory. How have the recent assurance conclusions over the GHG emissions disclosures impacted on your perceptions on trust and confidence? Describe what you think the assurance practitioner is doing or you would like then to do?
 - b. Would assurance over the full climate statement affect your perceptions of reliability of the report? Why/why not?
 - c. What do you expect that assurance to cover?
 - d. Which elements in the climate statement do you think would benefit the most/least from assurance and why?
 - e. Describe how you think this assurance may differ from the audit of financial statements?
 - f. How would the level of assurance affect your perceptions of reliability? What do you understand by that level of assurance?
 - g. What information would you be looking for in the assurance report?
 - h. How much reliance would you place on this assurance?
 - i. Who do you think should perform this assurance and why? How would the type of assurance practitioner affect your perception of reliability?
 - j. How important is Independence? What does an independent assurance practitioner mean to you?
 - k. What expertise do you think that assurance practitioner should have?
 - l. Are you looking for assurance over the connectivity to financial statements? If so, what do you think this should look like or cover?

Recommendation

13. We recommend that the Board provides FEEDBACK on possible research to explore user needs.