

# New Zealand Auditing and Assurance Standards Board

## MEETING PACK

for

### NZAuASB Board Meeting - Virtual - PUBLIC

Wednesday, 9 April 2025

9:15 am (NZST)

Held at:

Virtual

Microsoft Teams Meeting

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# AGENDA

## NZAUASB BOARD MEETING - VIRTUAL - PUBLIC

<b>Name:</b>	New Zealand Auditing and Assurance Standards Board
<b>Date:</b>	Wednesday, 9 April 2025
<b>Time:</b>	9:15 am to 5:00 pm (NZST)
<b>Location:</b>	Virtual, Microsoft Teams Meeting
<b>Committee Members:</b>	Marje Russ (Committee Chair), David Hay, Doug Niven, John Kensington, Richard Kirkland, Todd Beardsworth, Vasana Vanpraseuth
<b>Attendees:</b>	Anna Herlender, Bruce Mcniven, Karen Griffin, Karen Tipper, Lisa Thomas, Misha Pieters, Sharon Walker, Wendy Venter

### 1. Standing items (PRIVATE)

### 2. Board Management (PUBLIC)

#### 2.1 Action List

9:15 am (5 min)

##### For Decision

Supporting Documents:

2.1.a	2.1 Action List April 2025.docx	8
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#### 2.2 Chair Report

9:20 am (5 min)

##### For Noting

Verbal

#### 2.3 AUASB Update

9:25 am (5 min)

##### For Noting

Verbal

#### 2.4 Chief Executive Update

9:30 am (15 min)

Wendy Venter

##### For Noting

Verbal

### 3. NZAuASB workplan (PUBLIC)

#### 3.1 Summary Paper

9:45 am (10 min)

##### For Discussion

Supporting Documents:

3.1.a	3.1 Summary paper NZAuASB work plan April 2025.docx	9
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<b>3.2 SUPPLEMENTARY: 2024/25 Prioritisation Schedule</b>	9:55 am (10 min)
<b>For Discussion</b>	
<b>3.3 SUPPLEMENTARY: 2025/26 prioritisation schedule</b>	10:05 am (5 min)
<b>For Noting</b>	
<b>3.4 SUPPLEMENTARY: SAC Highlights</b>	10:10 am (3 min)
<b>For Noting</b>	
<b>3.5 SUPPLEMENTARY: PIOB Public Interest IAASB Report (Jan)</b>	10:13 am (2 min)
<b>For Noting</b>	
<b>3.6 SUPPLEMENTARY: PIOB Public Interest IESBA Report (Jan)</b>	10:15 am (2 min)
<b>For Noting</b>	
<b>3.7 SUPPLEMENTARY: IAASB Update</b>	10:17 am (3 min)
<b>For Noting</b>	
<b>3.8 SUPPLEMENTARY: IESBA Update</b>	10:20 am (5 min)
<b>For Noting</b>	
<b>3.9 SUPPLEMENTARY: Update on CSRD developments</b>	10:25 am (5 min)
<b>For Noting</b>	
<b>3.10 Morning Tea</b>	10:30 am (20 min)
<b>4. Code of Ethics - IESSA (PUBLIC)</b>	
<b>4.1 Summary paper</b>	10:50 am (5 min)
Anna Herlender	
<b>For Noting</b>	
Supporting Documents:	
4.1.a 4.1 IESBA sustainability BMSP April 2025.docx	13
<b>4.2 Issues paper</b>	10:55 am (25 min)
<b>For Discussion</b>	
Supporting Documents:	
4.2.a 4.2 IESSA analysis.docx	15
<b>4.3 SUPPLEMENTARY: IESSA</b>	11:20 am (30 min)
<b>For Noting</b>	

## 5. ISSA 5000 (PUBLIC)

### 5.1 Summary paper

11:50 am (5 min)

Karen Tipper

#### For Noting

Supporting Documents:

5.1.a	5.1 BMSP ISSA 5000.docx	33
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### 5.2 Analysis of standard and XRB submission points

11:55 am (30 min)

#### For Discussion

Supporting Documents:

5.2.a	5.2 NZ AuASB Issues Paper 5000 9 April Final.docx	36
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### 5.3 SUPPLEMENTARY: ISSA 5000

12:25 pm (25 min)

#### For Noting

### 5.4 LUNCH

12:50 pm (25 min)

## 6. ISA for LCE (PUBLIC)

### 6.1 Summary paper

1:15 pm (5 min)

Bruce McNiven

#### For Noting

Supporting Documents:

6.1.a	6.1 Board Meeting Summary Paper ISA for LCE.docx	48
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### 6.2 Analysis of submissions

1:20 pm (25 min)

#### For Discussion

Supporting Documents:

6.2.a	6.2 Issues paper ISA for LCE.docx	51
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### 6.3 Analysis of drafting suggestions

1:45 pm (15 min)

#### For Discussion

Supporting Documents:

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### 6.4 SUPPLEMENTARY: Submissions

#### For Information

## 7. Narrow scope Use of Experts (PUBLIC)

### 7.1 Summary paper

2:00 pm (30 min)

Bruce Mcniven

#### For Discussion

Supporting Documents:

7.1.a	7.1 Board Meeting Summary Paper Use of experts.docx	80
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## 8. Fraud (PUBLIC)

### 8.1 Summary paper

2:30 pm (5 min)

#### For Noting

Supporting Documents:

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### 8.2 Issues paper

2:35 pm (35 min)

#### For Discussion

Supporting Documents:

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### 8.3 Afternoon tea

3:10 pm (20 min)

## 9. GHG Assurance monitoring (PUBLIC)

### 9.1 Snapshot

3:30 pm (15 min)

#### For Noting

Supporting Documents:

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## 10. CIV consultation paper (PUBLIC)

### 10.1 Summary paper

3:45 pm (15 min)

#### For Noting

Supporting Documents:

10.1.a	10.1 NZAuASB Board Meeting Summary Paper Collective Investment Vehicle Project.docx	100
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## 11. Service Performance Information update (PUBLIC)

### 11.1 Update

4:00 pm (30 min)

Misha Pieters

## For Discussion

Verbal - with Nimash Bhikha

### 11.2 Summary Paper

#### For Discussion

Supporting Documents:

11.2.a 11.2 BMSP SPI assurance guidance.docx	104
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### 11.3 Updated draft assurance guidance

#### For Discussion

Supporting Documents:

11.3.a 11.3 Event attendance example.docx	105
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## 12. Update EG Au8 (PUBLIC)

### 12.1 Summary paper

4:30 pm (15 min)

Misha Pieters

#### For Noting

Supporting Documents:

12.1.a 12.1 NZAuASB Board Meeting Summary Paper EG Au8 Service Organisations.docx	113
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## 13. Board management (PRIVATE)

## 14. Close Meeting

### 14.1 Close the meeting

**Next meeting:** NZAuASB Board Meeting - In Person -Wellington - 4 Jun 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	2026	In February agreed to defer user perspectives on climate assurance to a later date
June 2024	Consider implications of IFRS name change on the auditing standards	2026	Deferred until IFRS 18 is applicable.
Dec 2024	Service Performance information reporting and assurance provide an updated timeline	Feb 2025	Update and revised timeline discussed in Feb. Update on discussion document within agenda.
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.
Feb 2025	Document the rationale for the approach of retaining FMC HLPAs, and not introducing publicly traded entity (PTE). Follow up with Australia to understand who are PTE's in their context. Consider the harmonisation policy.	June 2025	Work ongoing. To update in June following discussion by the IAASB on next steps.
Feb 2025	Arrange further calls to explore independence requirements and all FMC reporting entities	June 2025	Further information received from FMA
Feb 2025	Expressed interest in participating in a joint project with AUASB staff to update guidance on Use of Service Organisations for Investment Management Services	April 2025	Joint project advisory group established comprising of both Australian and New Zealand practitioners. Draft project plan within agenda.
Feb 2025	Preliminary discussion on next steps for sustainability assurance to be discussed with the XRB board and the SSB during March	April 2025	XRB and SSB in agreement over direction of travel.



**Meeting date:** 10 April 2025  
**Subject:** NZAuASB Work Plan  
**Date:** 26 March 2025  
**Prepared By:** Misha Pieters

☒ **Action Required**

☐ **For Information Purposes Only**

### **Objective**

1. The objective is for the Board to:
  - a. NOTE the update on the XRB's statement of performance expectations and statement of intent.
  - b. DISCUSS the prioritisation schedule for the remainder of 2024/25.
  - c. NOTE the prioritisation schedule for the 2025/26 period.
  - d. DISCUSS environmental scans to inform any changes to the prioritisation schedule.
  - e. DISCUSS the agenda for the upcoming jurisdictional standards setters meeting in May and provide input to inform participation.

### **Accountability documents**

2. The XRB Board discussed the developing statement of intent (SOI) for 2025-2030 and the draft statement of performance expectations (SPE) at its March meeting. This follows the NZAuASB's discussions in December and February.
3. The XRB Board will approve the SOI and SPE at its April meeting.

### **Environmental updates**

4. Key environmental matters to highlight relevant to the work of the NZAuASB include:
  - a. The European Commission has adopted a package of proposals to simplify EU sustainability reporting requirements, referred to as CSRD. The proposals also streamline assurance, removing the power to impose reasonable assurance and removing the requirement for the Commission to adopt assurance standards by 2026. The Commission may rather issue targeted assurance guidelines by 2026. There is a proposal for assurance practitioners to not request information from value chain companies with fewer than 1,000 employees beyond the information that is included in the voluntary sustainability reporting standard. Refer to the separate agenda update to the SRB for more information.
  - b. The UK campaign to support small and medium-sized enterprises (SMEs) access to audit services. The FRC in the UK published an information sheet which explains the purpose of ISAs and the role of the IAASB in setting and revising these standards and touches on proportionality of auditing standards. They have also released a podcast which discusses the role of audit standards and how they can be applied in a proportionate and scalable way. More information is on their [website](#).
  - c. IFIAR has released their [2024 Report](#) on Annual Survey of Audit Inspection Findings. While the number of findings reported in this survey have generally shown a decrease since tracking began in 2014, the results of both the 2023 and 2024 surveys reveal an increase in the number of listed PIE audits inspected with at least one finding.

**Prioritisation schedule for 2024/25**

5. The prioritisation schedule for 2024/25 has been updated since the February meeting. Blue text provides updates. Rows highlighted green reflect completion of a matter. Rows highlighted orange reflect delays and therefore this work will not progress in the year ending June 2025, largely due to delays internationally.

**Prioritisation schedule for 2025/26**

6. The draft prioritisation schedule for 2025/26 reflects our ongoing domestic projects, focussed on assurance over non-financial information, and the expected consultations and standards from the international boards. The IAASB's work on technology and progression of an exposure draft on the integrated project on audit evidence, risk response and analytical procedures will explore some key fundamental principles underpinning reasonable assurance. The IESBA's project on firm culture and governance and the interaction with the quality management standards will also be of key interest to the XRB.

**National or Jurisdictional Standards Setters Meeting**

7. The XRB will participate at upcoming Jurisdictional Standards Setters meeting (JSS) in New York in May 2025. The following items are on the agenda however we have not received the papers to inform our preparation:

**IESBA JSS agenda**

- a. Terms of Reference of JSS Liaising Group – we will update the NZAuASB when we receive more information about the terms of reference.
- b. Adoption and Implementation of Sustainability and Using the Work of an External Expert Standards – the NZAuASB discussions related to the IESSA on a later agenda will inform the XRB key messages.
- c. Tax Planning Update – not within the XRB's mandate, so not a focus for our preparation.
- d. Technology Update -the IESBA continue environmental scanning of emerging technology.
- e. Firm Culture and Governance – the IESBA update, together with verbal report backs from the Chair and Chief Executive, who attended recent global roundtable discussions on this topic will provide context for the expected discussions. From our previous NZAuASB discussions, the interaction with this developing framework and the quality management standards is a matter we will continue to raise.
- f. Private Equity Investments in Accounting Firms – there appears to be an increasing trend in other jurisdictions, and the IESBA is exploring the ethical and independence requirements. To date we have not heard that this is an emerging trend in New Zealand.

**Joint IESBA/IAASB agenda**

- g. Deregulation and the impact on sustainability related standards – The XRB may provide an update on the New Zealand developments and recent MBIE consultations. Our snapshot of the assurance regime at a later agenda item provides further input for the update.

**IAASB agenda**

- h. Evolving Cooperation and Collaboration – this agenda follows on from a discussion at the meeting last year. The IAASB staff have established topic related channels for JSS to share ideas and issues emerging between the annual meetings. For example, the XRB are on the technology IAASB-JSS liaison group. Opportunities to further collaborate will be explored.
- i. Jurisdictional developments of international relevance – staff are completing a request for information. This information will be collated by IAASB staff and key themes will be discussed at the meeting. We may circulate the compiled collection of jurisdictional developments when available.

- j. Modernisation of ISA 501<sup>1</sup>, 505<sup>2</sup> and 530<sup>3</sup> - This project is in the information gathering stage. Greg Schollum is a project board member for this project. The NZAuASB did explore a paper on external confirmations previously but agreed to wait until the IAASB's project considers this. We request thoughts on special considerations related to audit evidence (e.g. inventory counts), external confirmations and audit sampling if there are any key matters you consider we need to raise.
- k. Audit Evidence and Risk Response – The IAASB approved a [project plan](#) in December. 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. Exposure drafts are expected to be approved by March 2026. The IAASB progressed discussions on some of the issues, refer to IAASB March meeting summary. Key foundational principles that underpin reasonable assurance are being explored including on:
  - i. the ongoing need for inclusion of the safety net requirement for the auditor to perform more audit work on material amounts even when there is no assessed risk of material misstatement.
  - ii. whether test of controls alone can be enough in certain circumstances.
  - iii. whether the distinction between test of details and substantive analytical procedures remains appropriate.
- l. Quality management and technology in engagements –advancements in the sophistication of technological resources since International Standard on Quality Management 1 (ISQM 1) became effective have given rise to the need for additional information gathering to evaluate whether the standard's principles-based requirements and application material remain sufficient to guide firms on quality management associated with emerging technologies. This discussion will provide more information gathering for the IAASB, who look to solicit both regulatory perspectives on the need for additional guardrails for appropriate use of technology, while canvassing practitioners to understand how operationalising ISQM 1 has enabled acceptance and use of technology. For example:
  - i. Several firms have started to deploy more complex technological resources, including artificial intelligence applications (AI), in their assurance practices. Some of these technological resources are generally considered to be "black-box" systems, where it is challenging, or even impracticable, to understand how the system is arriving at its conclusions/ outputs.
  - ii. There are also significant data privacy and data security concerns risks that also need to be considered and managed by firms, particularly as much of the data that assurance practitioners use is proprietary client data.
- m. ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor. XRB and AUASB staff are assisting the IAASB on this project. The overarching issue to be addressed is the inconsistency in practice between and within jurisdictions globally relating to the performance of and reporting on engagements to review interim financial information undertaken by the independent auditor. The developing project plan covers:
  - i. Developing a principles-based standard that aligns with the concepts and terms used in the International Framework for Assurance Engagements;

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<sup>1</sup> ISA 501 [Audit Evidence – Specific Considerations for Selected Items](#)

<sup>2</sup> ISA 505 [External Confirmations](#)

<sup>3</sup> ISA 530 [Audit Sampling](#)

- ii. Modernising the standard, in a proportionate way, drawing on changes in other standards issued by the IAASB, where relevant, to meet the heightened expectations of intended users;
- iii. Exploring enhancements to the form, structure and presentation of the auditor's review report to enhance the understandability and usefulness of the report to users.

A review of interim financial information undertaken by the auditor is unique. It has a different purpose to a review engagement conducted in accordance with ISRE 2400 (Revised)<sup>4</sup>, i.e. reviews that are not undertaken by the auditor. However, the engagement is still a limited assurance engagement. The key issue will be to set requirements applicable to the purpose of a ISRE 2410 engagement, where there is a need to differ from ISRE 2400 given the different purpose of the engagement. In revising the standard, the project will draw from both ISRE 2400 (Revised) and revisions to the ISAs, as appropriate.

### **Recommendation**

8. We request feedback from the Board on:
  - a. The updates to the prioritisation schedule to June 2025.
  - b. The draft prioritisation schedule for 2025/26.
  - c. Other issues impacting the work plan and priorities for the NZAuASB.
  - d. Input to inform participation at the May JSS meetings.

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<sup>4</sup> ISRE 2400 (Revised), Engagements to Review Historical Financial Statements

## NZAuASB Board Meeting Summary Paper

**Meeting date:** 9 April 2025  
**Subject:** IESBA Sustainability Standards  
**Date:** 26 March 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 adopt International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA)
  - To identify matters relevant for New Zealand and consider whether any compelling reason amendments are required to the standard if it were to be adopted in New Zealand
  - Consider the impact on NZ SAE 1 Assurance Engagements over GHG Emissions Disclosures.

### Background

2. IESSA was issued by the International Ethics Standards Board (IESBA) in January 2025 and is effective for the periods beginning on or after 15 December 2026 (value chain provisions effective from 1 July 2028). IESSA is drafted as a new part – Part 5 – to the IESBA’s Code of Ethics (the Code). Part 5 is drafted to be stand alone part of the Code to facilitate the use of this part by assurance practitioners who do not apply other parts of the Code. An overview of the structure of the Code after adding Part 5 and the main sections of Part 5 is included in Appendix 1 to the Issues Paper.
3. In February 2025, the Board discussed potential next steps for IESSA acknowledging the need for strategic input from the XRB Board. The Board preliminarily agreed on the following possible steps:
  - consult and adopt the IESSA into PES 1, the XRB’s existing standard on ethics and independence for assurance engagements with further consideration needed to restrict the application of this Part for the New Zealand context.
  - explore and consult, if needed, on whether any new principles or adjustments resulting from IESSA (for example for value chain considerations) should be included in the temporary standard NZ SAE 1 that should be mandatory for the assurance over GHG emission disclosures.
4. The Board also noted the importance of monitoring the developments relating to IESSA.

### *Recent developments relevant to IESSA*

### *IESBA’s engagement with IAF*

5. IESBA continue to engage with the International Accreditation Forum (IAF). The IAF has mapped its current ethics requirements for sustainability assurance engagements to the Exposure Draft of IESSA.

6. IAF and IESBA plan to issue a joint factual statement in July 2025 and IAF is planning the development of a program/scheme requirements for accreditation bodies in October 2025. The next steps include training accreditation bodies and conformity assessment bodies.

#### *Exposure Draft issued in Australia*

7. The Accounting Professional and Ethical Standards Board (APESB) in Australia issued their Sustainability [Exposure Draft](#). The APESB is proposing to adopt the IESSA and consequential amendments to the other parts of the Code of Ethics. The proposed effective date is 1 January 2026, except for the value chain provisions proposed to become effective from 1 January 2027. Feedback is required by 12 May 2025.
8. The APESB is proposing some Australian-specific material in the Exposure Draft. We consider these changes within the issues paper.

#### **Matters to Consider**

9. The Board is asked to provide their views on whether they agree with the staff recommendations:
  - For the XRB to adopt the IESSA.
  - To add a New Zealand paragraph into IESSA referring readers to NZ SAE 1 for ethical and independence provisions when performing assurance engagements over GHG emissions disclosures in climate statements.
  - To amend the requirement on work of another practitioner in NZ SAE 1 based on new requirements in the IESSA.
  - To continue to monitor the appropriate time to introduce further clarity on how to address familiarity threats from long association.
  - To explore across the XRB, the implications for new requirements relating to the disclosure of fees.
  - To add requirements relating to tax services into IESSA, similar to what is currently in New Zealand paragraphs in Part 4A.
10. Staff has not identified any other compelling reason changes for adoption of the IESSA in New Zealand.
11. Staff have not identified further changes to make to NZ SAE 1 as a result of the IESSA at this stage.
12. The Board is asked to provide their views on any further changes they consider may be needed.

#### **Next steps**

13. Based on the discussions, staff plan to prepare a consultation paper and exposure drafts to seek feedback from our stakeholders on the proposals agreed to by the NZAuASB.

#### **Material Presented**

Agenda item	Board Meeting Summary Paper
Agenda item	Issues Paper: analysis of IESSA
Agenda item	IESSA (in supplementary pack)

## Subject: Issues Paper - Analysis of IESSA for New Zealand context

1. The aim of the analysis below is to:
  - Agree whether the XRB should adopt the IESSA<sup>1</sup>.
  - Identify matters relevant for New Zealand and consider whether any compelling reason amendments are required to the standard if it were to be adopted in New Zealand.
  - Consider the impact on NZ SAE 1<sup>2</sup> and possible amendments to NZ SAE 1.

### A. Should the XRB adopt the IESSA

2. At the February 2025 meeting, the Board discussed the extent to which the XRB's key submission points had been addressed in the IESSA issued by the IESBA in January 2025. The Board also discussed the potential next steps, acknowledging the need of strategic direction from the XRB.
3. Following preliminary discussions in February, the XRB and SSB Boards discussed the adoption of IESSA in their March meetings. Both Boards were supportive of potential adoption in New Zealand provided the standard was appropriately scoped for use.
4. Staff recommend that the XRB adopt the IESSA for periods beginning on or after 15 December 2026 but look to scope this appropriately for New Zealand.

### 5. Does the Board agree with this recommendation?

### B. Matters relevant to New Zealand and Compelling Reason Changes

6. In this section of the paper, we have further analysed the sections of the IESSA that are either different from the current requirements for audits or include amendments to the existing Code (for example in Part 4A). We have considered whether any specific New Zealand amendments should be made to the IESSA if it is adopted.

#### B.1 Scope

7. The IESSA includes both ethical and independence requirements. The scope of these requirements differs:
  - Independence requirements apply to engagements that have the same level of public interest as audits of financial statements (that is where reported information is prepared in accordance with a general-purpose framework and required by law or used for decision-making) – para 5400.3b
  - Ethics requirements apply to sustainability assurance practitioners performing (para 5100.2 (b)):
    - i. any sustainability assurance engagements (not only those that are in the scope of the independence requirements).

However, the Explanatory Memorandum issued by the IESBA has clarified that certification engagements do not meet definition of a sustainability assurance

<sup>1</sup> International Ethics Standards for Sustainability Assurance (including International Independence Standards)

<sup>2</sup> NZ SAE 1, *Assurance Engagements over Greenhouse Gas Emissions Disclosures*

engagement in the IESSA: *“the definition of sustainability assurance engagement applies only to engagements designed to enhance the degree of confidence of the intended users about the sustainability information but not to certification engagements that are designed to confirm compliance with the specifications set out in relevant certification or accreditation standards”*<sup>3</sup>.

- ii. other professional services performed by sustainability assurance practitioners for their sustainability assurance clients.

This scope means that whenever an assurance practitioner performs a sustainability assurance engagement in accordance with the IESSA for their client, they need to follow the ethical requirements of the IESSA for all services provided to this client.

8. The XRB was supportive of the scope of the IESSA in its submission to the IESBA.
9. Based on previous Board discussions, the following risks relating to the scope in New Zealand have been identified:
  - Risk 1. Mandatory context: If the XRB were to issue the IESSA, practitioners may understand that these requirements are required for the mandatory assurance over GHG emissions disclosures in climate statements. This is the biggest risk given legislation<sup>4</sup> that points practitioners to the XRB’s assurance standards.
  - Risk 2. Voluntary context: The IESSA might be perceived as a standard that has to be followed by all sustainability assurance practitioners for all sorts of assurance engagements including certification engagements. This is seen as a lesser risk, as sustainability assurance practitioners active in this space may not look to the XRB’s standards and are not required by legislation to do so.
10. Staff recommend the following approaches to mitigate these risks:
  - Risk 1: include an additional New Zealand paragraph clarifying the scope for the mandatory context. The additional paragraph would signpost that for GHG emission disclosures within climate statement, the assurance practitioner shall apply NZ SAE 1.
  - Risk 2: issue additional communication outside the standard for the voluntary context. Additional communication would explain that the scope of IESSA does not cover certification engagements and that other practitioners are welcome to use the IESSA for sustainability assurance engagements within the scope of the IESSA but the XRB does not require them to do so.
11. Possible wider messages in our communications could be:
  - The XRB is adding a new part to the Code of Ethics that relates to sustainability assurance engagements.
  - This new part is aligned with the international version of Part 5 issued by the IESBA.
  - Part 5 was written by the IESBA to be used by any assurance practitioner for sustainability assurance engagements. While the XRB notes that other practitioners in New Zealand may

<sup>3</sup> This clarification is from Explanatory Memorandum accompanying IESSA’s Exposure Draft, paragraph 28

<sup>4</sup> Financial Markets Conduct Act 2013



apply Part 5, the XRB is not requiring the use of Part 5 by any assurance practitioner. Professional and accreditation bodies or other regulations may mandate the use of Part 5.

- The XRB standard for assurance engagements over GHG emissions disclosures allows all independent and competent assurance practitioners to perform these engagements. At this stage the XRB is not intending to mandate the use of the IESSA in NZ SAE 1 but is closely monitoring the use of the standard. NZ SAE 1 allows practitioners to choose what ethical and independence standards they follow over and above the ethical and independence requirements that are integral to the standard and requires that they identify these standards in the assurance report.

12. **Does the Board agree with the recommended approach to scoping the standard?**

13. **Does the Board have additional feedback on the proposed communication messages?**

## B.2 Application of ethical requirements – sections 5300-5390

14. Sections 5300-5390 include the ethical requirements that the assurance practitioner is required to follow when providing any type of services to their sustainability assurance clients. The XRB's submission was supportive of this principle. This is different from Part 3 of the Code of Ethics. Part 3 in the extant Code caters for circumstances when professional accountants provide services other than audits of financial statements to any of their clients.
15. As the XRB maintains the Code of Ethics for assurance practitioners in New Zealand, some subsections from Part 3 of the IESBA's Code of Ethics are not included in PES 1<sup>5</sup>. For example, the NZAuASB previously decided that ethical considerations relating to tax planning services are not to be incorporated into PES 1. This is because PES 1 is for assurance practitioners, while tax planning services has been drafted and included in section 3 on the basis to be applied by all professional accountants in public practice. The NZAuASB previously noted that in these circumstances tax planning services will be included in the professional body's Code of Ethics.
16. Staff's view is that it would not be appropriate to remove any circumstances or services, including tax planning services, from Part 5 if adopted by the XRB. Removing any of the subsections could be interpreted that sustainability assurance practitioners do not need to follow ethical requirements of Part 5 when providing these services to their assurance clients.
17. Acknowledging that the scope of ethical standards in Part 5 and ethical standards in the remaining part of the Code is different; to minimise confusion and misunderstanding, we will include this topic in our communications, such as deep-dives and other events informing about the contents of Part 5.

18. **Does the Board agree that circumstances and services included in section 5300-5390 should not be removed from Part 5?**

<sup>5</sup> PROFESSIONAL AND ETHICAL STANDARD 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)

### B.3 Responding to Non-Compliance with Laws and Regulations

19. Requirements to respond to non-compliance with laws and regulations (NOCLAR) in Part 5 include additional communication requirements between sustainability assurance practitioners and external auditors, which are not included in the extant Code of Ethics.
20. R5360.18a and R5360.18b require the sustainability assurance practitioner to:
  - **communicate** NOCLAR or suspected NOCLAR to the external auditor, when the sustainability assurance client is also an audit client or a component of an audit client of the firm,
  - **consider whether to communicate** NOCLAR or suspected NOCLAR to the external auditor, when the sustainability assurance client is an audit client or a component of an audit client of a network firm or a firm outside the network.
21. The communication to the external auditor is also required when other services are performed to the sustainability assurance client or where assurance is provided during the engagement that does not meet the criteria of paragraph 5400.3b (that is sustainability information is reported in accordance with general purpose framework, is required by law or is publicly available for decision making purposes) (R5360.31-R5360.33).
22. Consequential amendments to the existing Part 3 of the Code include additional provisions to require auditors of financial statements to communicate NOCLAR to sustainability assurance practitioners who perform sustainability assurance engagement within the scope of independence requirements of Part 5 (that is engagements who meet criteria of paragraph 5400.3b).
23. The consequential amendments to Part 3 of the extant Code mirror the requirements in Part 5. Auditor shall:
  - **communicate** NOCLAR or suspected NOCLAR to sustainability assurance practitioner if the client is also a sustainability assurance client or a group component of a sustainability assurance client of the firm,
  - **consider whether to communicate** NOCLAR or suspected NOCLAR to sustainability assurance practitioner if the client is also a sustainability assurance client of a network firm or is a client of a firm outside the network.
24. In accordance with 360.18b A2 and 5360.18b A2: *“The purpose of the communication is to enable:*
  - (a) The engagement partner [/engagement leader] to be informed about the non-compliance or suspected noncompliance and to determine whether and, if so, how to address it in accordance with the provisions of the Code; and*
  - (b) The sustainability assurance practitioner and the engagement partner to discuss and coordinate to the extent necessary relevant actions pursuant to the provisions in this section [5360] and Section 360, respectively.”*
25. The XRB’s submission to the IESBA supported two-way communication between the auditor and the sustainability assurance practitioner. In the Exposure Draft, the requirement was drafted in the form of “consider whether to communicate”, while in the final version the IESBA decided to elevate the requirement to “communicate” where the client is at both audit and sustainability client of the firm. This change is consistent with what is currently in the Code of Ethics in relation to communication requirements from practitioners performing other services than audit or review of financial statements to auditors.

26. Staff recommends the NOCLAR requirements are adopted in New Zealand. No compelling reason changes have been identified (other than usual XRB changes, for example replacing “professional accountant” with “assurance practitioner”).

<p><b>27. Does the Board agree with this recommendation?</b></p>
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#### B.4 Groups and value chain provisions

28. The IESBA introduced two definitions of components, with distinction 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.”
29. Section 5405 on group assurance engagements:
- mirrors the independence provisions for group assurance engagements included in section 405 in Part 4A. These provisions apply to group components.
  - includes separate provisions relating to value chain components. These are new provisions.
30. Provisions relating to value chain components take a practical approach. They require independence of a firm and assurance team members only in relation to the entity on which the work is performed. They do not require independence of the network firms, and they do not require independence from entities other than those on which the assurance work is performed.
31. Additional practical aspects include:
- if the group sustainability assurance client is a public interest entity, the public interest entity provisions do not apply with respect to value chain components.
  - if planning work is performed to determine whether assurance work should be performed on the value chain component, independence provisions in relation to that value chain component do not apply.
  - if the group sustainability assurance firm obtains evidence about the value chain component without performing procedures on data maintained by that value chain component, the independence provisions do not apply in relation to that value chain component.
32. The XRB’s submission expressed concern at the level of complexity of the group and value chain provisions. While the final provisions have been restructured and a practical approach to value chain components have been applied, the group requirements remain complex. The IESBA agreed to commission IESBA Staff to develop FAQs or other non-authoritative guidance to further support the implementation of the relevant independence provisions.
33. The transitional provisions in relation to the value chain postpone the effective date for 18 months from the effective date of the remaining Part 5 (for periods beginning on or after 1 July 2028) to enable more time to adopt and implement the requirements. Before that date the assurance practitioners are allowed to apply the conceptual framework to identify, evaluate and address threats to independence in relation to assurance work at a value chain component. If assurance practitioners choose to apply this transitional provision then they are required to publicly disclose that the independence provisions relating to the value chain have not been applied.

34. Staff has not identified any compelling reason changes for amendments in New Zealand context.

35. **Does the Board agree that there are no compelling reason changes in relation to groups and value chain provisions?**

#### B.5 Another Practitioner Whose Assurance Work is Used in a Sustainability Assurance Engagement

36. Section 5406 includes independence provisions when a firm intends to use the assurance work of another sustainability assurance practitioner, and the firm is unable to be sufficiently and appropriately involved in that assurance work. This relates to situations where the sustainability information includes information that has been or will be assured by another practitioner. This is a new section and it does not have a corresponding section in part 4A of the Code.
37. The section includes two sets of provisions depending on whether the work is performed on the group component or value chain component:
- If another practitioner performs work at a group component, the firm needs to request confirmation of independence (including the firm and individuals performing the work) from the entity at which another practitioner performs the assurance work.
  - If another practitioner performs work at the value chain component, the firm needs to be satisfied that another practitioner is independent from the value chain component. The firm can be satisfied by reviewing statement in public report issued by another practitioner or can request confirmation from another practitioner.
38. The IESBA also included a transitional provision in the case of early adoption of Part 5. The firm is allowed to accept confirmation of the independence of another practitioner even if the other practitioner is independent in accordance with Part 4B (Part 4B includes independence provisions for assurance engagements other than audits).
39. The XRB's submission was supportive of the principles regarding using work of another practitioner, however included concerns about the clarity of the section. The IESBA's restructured the requirements regarding another practitioner and committed to issue guidance to support adoption.
40. Staff have not identified any compelling reason changes for amendments in the New Zealand context.

41. **Does the Board agree that there are no compelling reason changes in relation to another practitioner provisions?**

#### B.6 Long association

42. Section 5540 on long association of personnel mirrors audit rotation requirements and additionally introduces circumstances when an individual could be involved in a combination of audit and sustainability assurance engagements for the same client. In these circumstances the roles on both engagements need to be included into considerations of familiarity threats and calculations of "time-on" and "cool-off" periods for individuals working on sustainability assurance engagements.
43. At the same time consequential amendments are introduced for Part 4A of the Code (section 540) so that the familiarity threats arising when an individual is involved in a combination of audit and sustainability assurance engagements for the same client are factored into calculations of "time-on" and "cool-off" periods for individuals working on audit engagements. Firms preparing for these requirements need to be aware that performing the sustainability assurance engagement and the

financial statement audit are not considered discretely, rather they need to consider the time-on period across the combination of these roles when these changes are effective.

44. The transitional provision to Part 5 further explains, that the time served on sustainability assurance engagements before IESSA becomes effective, should also be included in the calculation of time spent on the client.
45. The XRB's submission supported inclusion of time spent by individuals on sustainability assurance engagements into long association considerations in part 4A (that is for audit engagements) and agreed that the same provisions should be in Part 5 (for sustainability assurance engagements).
46. Staff have not identified any compelling reason changes for this section.

47. **Does the Board agree that there are no compelling reason changes in relation to long association provisions?**

### B.7 Fees

48. Section 5410 includes provisions related to fees from sustainability assurance clients. The section mirrors the provisions of section 410 in Part 4A of the Code.
49. Since the same independence requirements apply to both audit and sustainability assurance engagements, the IESBA considers that the relative proportion of audit fees and fees for such sustainability assurance engagements would not create a threat. Therefore a consequential amendment is added to Part 4A of the Code (paragraph 410.11.A2 a) *"Where a firm or a network firm provides a sustainability assurance engagement addressed in the International Independence Standards in Part 5, the fee for that sustainability assurance engagement does not impact the level of the self-interest threat or intimidation threat created by the proportion of fees for services other than audit to the audit fee."* Staff agrees with this amendment.

50. **Does the Board agree that there are no compelling reason changes in relation to fees provisions?**

### B.8 Tax services

51. Section 5604 includes non-assurance service provisions related to tax services to a sustainability assurance client. The section mirrors the provisions of section 604 in Part 4A of the Code.
52. Section 604 in PES 1 has been amended by the XRB when NAS related changes were adopted. The amendments aimed to:
  - clarify the meaning of the "confident is likely to prevail" test: *"NZ604.12 A2.1 The firm will need a high level of confidence that the tax advisory and tax planning services have a basis in tax law that is likely to prevail. The firm will gain that confidence if there is a high probability, if viewed objectively by applying the reasonable and informed third party test, that the tax advisory and tax planning services will be likely to prevail"* and
  - require appropriate documentation of the judgements made: *"NZ R604.12 The firm shall document the factors considered and conclusions reached in determining that the tax advisory and tax planning service satisfies the conditions described in paragraph 604.12 A2"*.

53. The Board previously expressed the views that tax advisory and planning services are quite unlikely to create self-review threat in the context of sustainability assurance engagements. Paragraph 5604.2 A3 acknowledges this, stating that while tax services are generally relevant to financial information and accounting entries, they can be relevant to sustainability and might affect the information on which the firm will express an opinion or the records underlying that information.
54. The IESBA retained the NAS section and included the subsection 5604 on tax services to maintain consistency between part 4A and Part 5 so that the same standards apply to sustainability assurance engagements with high public interest.
55. To be aligned with the IESBA's approach for other provisions, staff recommends that the New Zealand wording in section 604 is added to Part 5.

56. <b>Does the Board agree with the recommendation?</b>
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### B.9 Proposed changes in Australia

57. The APESB is proposing some Australian-specific material in their Exposure Draft. Staff considered the relevance of these for New Zealand, noting that largely these changes are proposed given the legislative requirements in Australia, which are not relevant for the XRB. These include:
  - Highlighting that a sustainability assurance engagement must be performed by the entity's auditor, who also audits the entity's financial statements in Australia as set out in section 301A of Corporations Act 2001 (proposed footnote to paragraphs R360.18a, R5360.18a and 5400.16a). This is not the case in New Zealand and therefore is not applicable for the XRB.
  - Recognising the requirements of the Corporations Act 2001 for sustainability assurance practitioners when performing sustainability assurance engagements in Australia (proposed footnote to paragraph 5100.4d). This is not applicable for the XRB.
  - Recognising the independence obligations for sustainability assurance practitioners when performing sustainability assurance engagements set out in the Corporations Act 2001 (proposed footnote to paragraph 5120.15 A2). This is not applicable for the XRB.
  - Clarifying the AUASB's prohibition of internal auditors in sustainability assurance engagements set out in ASSA 5000 (proposed footnote to paragraph 5605.1). We are not recommending such a prohibition for ISSA (NZ) 5000, refer to separate agenda paper.
  - The prohibition of certain relationships between a person or the firm and the audited body irrespective of materiality or the significance of the relation of financial interest set out in section 324CH(1) of Corporations Act 2001 (proposed footnote to paragraphs R5520.4, R5520.5, R5522.4 A1, AUST R5523.3.1, 5524.3 A1, R5524.4, R5524.6 and R5524.7). This is not applicable for the XRB.
  - more restrictive time-on requirements for audit partners of listed company, listed registered scheme or registrable superannuation entity in Australia set out in section 324DA of Corporations Act 2001 (proposed footnote to paragraphs R5540.7, R5540.8 A1, R5540.10, R5540.10a, R5540.11, R5540.13 and R5540.14). This is not applicable for the XRB.

- ASIC granting extension for sustainability assurance engagements set out in section 324DA of Corporations Act 2001 (proposed footnote to proposed paragraphs R5540.10 and R5540.11). This is not applicable for the XRB.
- additional guidance in APES 310 Client Monies when sustainability assurance practitioners deal with client monies (proposed footnote to paragraph 5350.2). This is not relevant to the XRB's standards.
- defining "credible basis" for tax planning arrangement as a "reasonably arguable position" set out in section 284-15 of the Tax Administration Act 1953 (proposed paragraph AUST 5380.12 A1.1). The XRB has not issued the section on tax planning services in extant PES 1.
- mandate the documentation of specific information relating to tax planning services to align with the extant requirements in the extant Code (proposed paragraphs AUST 5380.26 and AUST 5380.26 A1). The XRB has not issued the section on tax planning services in extant PES 1.
- We understand that when the APESB finalized the standard on the Objectivity of an Engagement Quality Reviewer, stakeholders in Australia sought clarification about the interaction between the quality management requirements and the ethical requirements. The APESB explored adding an additional Australian paragraph however based on feedback received, decided against adding an Australian paragraph and agreed to delete paragraph 325.8 to eliminate any confusion on the application of the cooling-off periods required by Sections 540 of the Code and ASQM 2 Engagement Quality Reviews. The APESB is now proposing the deletion of 5325.8 A4 (consistent with the previous decision). In New Zealand, the XRB's submission to the IESBA on this topic emphasized the view that the clarifications made by the IESBA related to auditor rotation, however the IESBA were firmly of the view that auditor rotation requirements address the familiarity threat, whereas the objectivity guidance is intended to address the self-review threat. Guidance was added to clarify that the partner rotation requirements are distinct from, and do not modify the cooling off period required by ISQM 2 as a condition for eligibility before the engagement partner can assume the role of the EQR. It is this paragraph that has been removed by the APESB. The XRB finalized the New Zealand revisions before the APESB consultation had closed, but did not remove the application material. Staff do not recommend removing this in Part 5.
- The requirements for audit partners and Key Sustainability Assurance Leaders not to be incentivised for selling non-assurance services to their Audit and Sustainability Assurance Clients has been broadened in paragraphs AUST R411.4 and AUST R5411.4 to ensure that audit partners and Key Sustainability Assurance Leaders are not incentivised for selling non-assurance services to any Audit or Sustainability Assurance Client of the Firm. The NZAuASB did not make such a change in New Zealand when finalizing the non-assurance services standard in PES 1.
- Subsections 604 and 5604 of APES 110 mandates the documentation of factors considered and conclusions reached in determining that a tax service (including a tax advisory and tax planning service) provided by the Firm that performs the Audit Engagement or Sustainability Assurance Engagement is permissible (paragraphs AUST R604.4.1, AUST R604.12.1, AUST R5604.4.1 and AUST R5604.12.1) and provides guidance that the Firm will need a high level of confidence that the tax treatment has a basis in tax law that is likely to prevail (paragraphs AUST 604.4 A1.1, AUST 604.12 A2.1, AUST 5604.4 A1.1 and AUST 5604.12 A2.1). Refer above for an analysis of the NZ changes relating to taxation services.

### B.10 Effective date

58. IESSA is effective for periods beginning on or after 15 December 2026, with the exception for the provisions relating to value chain components where the effective date is 1 July 2028. The effective date is aligned with the ISSA 5000.
59. Staff considered whether it would be appropriate to amend the effective date. No compelling reasons have been identified for a possible change.
60. Staff recommend that if the IESSA is adopted in New Zealand, the same effective date applies.

61. <b>Does the Board agree with the recommendation?</b>
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### B.11 Placement of Part 5

62. While the IESSA has been drafted as a stand-alone part that could be used by any assurance practitioner, the IESBA includes it as Part 5 to the extant Code.
63. Staff considered whether it would be appropriate in New Zealand to issue IESSA as a separate standard or to add it to PES 1.
64. If IESSA is widely used by assurance practitioners outside the accounting profession in New Zealand, it may be more convenient for those assurance practitioners to have direct access to only Part 5 as opposed incorporated within PES 1. On the other hand, assurance practitioners within the accounting profession, in certain circumstances, might need to look at provisions in both Part 5 and Part 4A – for example regarding long association requirements that need to be read together if an assurance practitioner provides also audit of financial statements. Finally, assurance practitioners currently applying PES 1 and providing assurance engagements that are not within scope of independence provisions of Part 5, will need to apply Part 5 for ethics requirements and Part 4B for independence requirements.
65. Overall, there is no clear indication whether including or not including IESSA in PES 1 would be more advantageous.
66. Staff recommends that IESSA is included in PES 1 to signal that this is the same Code of Ethics. Staff recommends exploring this issue in the XRB consultation.

67. <b>Does the Board agree with the recommendation?</b>
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## C. Impact on NZ SAE 1

### Compelling reason considerations

68. The existing temporary standard, NZ SAE 1, includes principles for ethics and independence. These principles were informed by what was in the previous version of IESBA Code of Ethics (the Code) as well as other ethical and independence principles for other assurance practitioners who may not be professional accountants.
69. NZ SAE 1 was informed by provisions in PES 1 and relevant ethical and independence provisions in ISO standards. At the time of writing NZ SAE 1, the IESSA had not been issued. Below we evaluate whether NZ SAE 1 should be adjusted in light of the issue of the IESSA.



70. As NZ SAE 1 includes high level principles for ethics and independence, staff considered whether new requirements should be added for clarity or consistency purposes at a principle level without adding additional level of detailed requirements. The below assessments take into account the Board's guidance during the February Board meeting, that the temporary standard needs a period of stability and at the same time that the XRB should be open to new developments that might be relevant to New Zealand's mandatory GHG assurance regime.

#### C.1 NZ SAE 1 considerations – value chain

71. IESSA introduces a different set of independence provisions in relation to value chain entities when compared to the existing group independence requirements in the Code of Ethics.
72. Independence in relation to value chain entities is relevant to New Zealand, as the scope 3 disclosures in the climate statements are subject to assurance from 31 December 2024 unless the entity elects to use the adoption provisions to exempt disclosure or assurance of these emissions.
73. The NZAuASB has not considered how the independence requirements should be specifically addressed by assurance practitioners in relation to value chain entities in NZ SAE 1 as specifically as done in the IESSA. Para 17 includes the principle: *"The assurance organisation and the assurance team shall remain free from conditions and relationships that a reasonable and informed third party would be likely to conclude compromised their independence"*.
74. Staff considered whether it would be useful to add to NZ SAE 1 regarding independence from a value chain entity based on the requirements in IESSA recognising that practitioners not applying IESSA might not have currently any specific provisions that would guide them through value chain independence considerations.
75. Provisions related to independence from value chain entities are rooted within the independence requirements for groups in the IESSA. Bringing relevant value chain provisions to NZ SAE 1 would need to be done along other provisions relating to groups. This might result with adding some level of complexity to the standard.
76. On the other hand, the principle regarding the third party test for independence in para 17 of NZ SAE 1 might be sufficient to allow assurance practitioners to decide which components within groups and value chain components of their clients they need to be independent.
77. It would be reasonable to expect that assurance practitioners conclude that they need to be independent at least from entities on which information they perform the assurance work. The assurance practitioners might determine that they need to be independent from other entities, depending on the circumstances and these decisions might be appropriate under the circumstances. There may be a risk of inconsistency, this risk was accepted when issuing the standard with the high level principles as opposed to the high level of prescription.
78. Staff recommends that no additional provisions are included in NZ SAE 1 regarding groups or value chain. Staff will be monitoring release of FAQs and non-authoritative guidance by the IESSA to evaluate whether it is appropriate to issue additional guidance to those users of NZ SAE 1 who will not be applying the IESSA.

79. Does the Board agree with the recommendation?
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## C.2 NZ SAE 1 considerations – use of work of another practitioner

80. Independence provisions regarding the use of work of another practitioner are new in IESSA. At the time NZ SAE 1 was drafted there were no such provisions in PES 1.
81. NZ SAE 1 requires: “*Determine that the other assurance practitioner is independent of the assurance client and GHG disclosures*” (para 27 (a)). This approach is different from the IESSA’s provisions that require independence from the entity on which the work is performed and might result in different outcomes depending on circumstances:
  - If work of another practitioner relates to the assurance client – the independence from the assurance client is required by both NZ SAE 1 and IESSA
  - If work of another practitioner relates to a value chain component – IESSA requires independence of another practitioner in relation to the value chain component, while NZ SAE 1 requires independence in relation to the assurance client.
82. IESSA requires confirmation of independence from another practitioner (it requires direct confirmation if work is performed on the assurance client and allows accepting independence statement in the assurance report if the work is performed on a value chain component). NZ SAE 1 is silent on how the independence should be determined.
83. IESSA requires independence of another practitioner to be in accordance with requirements of Part 5. However, the transitional provision allows to rely on another practitioner’s statement of independence in accordance with Part 4B or other professional requirements relating to independence. The transitional provision relates only to work done by another practitioner on a value chain component and is available until 1 July 2028 (consistent with other transitional provisions relating to value chain).
84. In order to minimise confusion and inconsistencies, staff suggest that the requirement on work of another practitioner in NZ SAE 1 is amended: “determine that the other practitioner is independent from the entity on which the other practitioner performed the work”.
85. As NZ SAE 1 does not require compliance with PES 1, it would not be appropriate to introduce a requirement to confirm independence of another practitioner in accordance with IESSA or Part 4B. Staff recommends not to introduce prescribed confirmation requirements into NZ SAE 1 and rather leave it to the assurance practitioners to decide the best way to determine independence of another practitioner depending on circumstances. There may be a risk of inconsistency, this risk was accepted when issuing the standard with the high level principles as opposed to the high level of prescription.

86. <b>Does the Board agree with the recommendation?</b>
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## C.3 NZ SAE 1 considerations - long association

87. IESSA includes prescribed rotation requirements for public interest entities. It is required that the total time spent on an assurance client, including in a key role on an audit of financial statement, should be included in the calculation of time allowed to be spent on the client and “cool-off” periods. Additionally, time spent on the client before the IESSA becomes effective, should be considered.
88. While drafting NZ SAE 1, the NZAuASB considered the prescribed rotation provisions required for audits. The NZAuASB agreed that the level of prescription from the Code of Ethics/ISO requirements was not the focus or appropriate at that time (given familiarity threats at the start of the regime would be low and there was a need to ensure there are sufficient competent practitioners to

transition into a new regime). Additionally, at the time of drafting NZ SAE 1, the NZAuASB recognised that the number of prescribed years differs between the Code and the ISO standards. As a result, NZ SAE 1 includes high level principles regarding long association: *“The assurance organisation and the assurance team shall identify, evaluate and respond to any threats that arise due to the assurance practitioner’s long association with the assurance client”* (NZ SAE 1, para 22).

89. It is reasonable to expect that applying the NZ SAE 1 requirement on long association would result in:
  - considerations of familiarity threat that might be due to long association before the start of an assurance engagement over GHG emissions disclosures in accordance with NZ SAE 1
  - considerations of various roles held by key sustainability assurance team members on the assurance client
  - rotating key members of the assurance team in response to familiarity threat.
90. Staff recommends that no further requirements on long association are added to NZ SAE 1 at this stage. However, as the regime matures it might be necessary to add more in the future. Over the time, there might be increase in capability of the practitioners who currently perform roles on audit engagements or other assurance engagements. Therefore, in future the Board will need to consider whether specific requirements regarding holding different roles for the same client should be considered in more details for the purpose of rotation requirements. The Board will need to consider addressing this matters at such a time in the future that would allow assurance practitioners to prepare for the changes.
91. Given the conforming amendments to Part 4A, staff recommend that we might need to issue FAQs and highlight that the IESSA requirements around rotation need to be considered ahead of time to support adoption by those who will apply these requirements.

92. <b>Does the Board agree with the recommendation?</b>
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#### C.4 NZ SAE 1 considerations - NOCLAR communication requirements

93. IESSA introduces two-way communication requirements of NOCLAR between the auditor and the sustainability assurance practitioner. At the time of developing NZ SAE 1, the Code of Ethics included requirements to communicate NOCLAR from the assurance practitioners to the auditor (one-way communication). This specific requirement has not been included into NZ SAE 1. However, NZ SAE 1 includes the requirement in paragraph 33 (c): *“Consider the need to report this matter to other internal and external parties, in line with relevant laws and regulations.”*
94. If Part 5 is adopted in New Zealand, auditors will be required to communicate/consider whether to communicate NOCLAR to sustainability practitioners. Similarly, sustainability practitioners applying Part 5 will be required to communicate/consider whether to communicate NOCLAR to auditors. However, sustainability practitioners not applying Part 5 will not be required to communicate NOCLAR to auditors.
95. While IESSA requires two -way communication, the same is not required by ISSA 5000. That will be considered as a separate project by the IAASB.
96. Staff considered whether NOCLAR communication requirements should be added to NZ SAE1. We have considered whether there is a risk that a NOCLAR having material on impact financial statement would be identified during an assurance engagement over GHG emissions disclosures and financial auditor would not be aware of this NOCLAR:

- NZ SAE 1 requires discussing NOCLAR with the assurance client and depending on the nature of NOCLAR performing additional procedures. Therefore, usually NOCLAR would be addressed by the assurance client (assurance client would take steps to manage or mitigate the consequences of NOCLAR) before the assurance opinion on GHG emissions disclosures is issued and
  - Auditors are required to enquire with management and those charged with governance about NOCLAR, therefore the assurance clients – after discussion with the assurance practitioner – would inform the auditor
  - Possible NOCLAR identified during engagements undertaken in accordance with NZ SAE 1 probably would not have significant financial impact, as NZ SAE 1 would be focused on measuring and reporting GHG quantities rather than compliance with wider carbon related policies, etc. .
97. Staff assess that a risk of an auditor not being aware of NOCLAR materially impacting financial statement is rather low. As NZ SAE 1 is principles based, staff recommend that the specific communication to auditor is not added to the standard. Instead, an additional question could be added to FAQ recommending communication to auditor in the instance of identifying of NOCLAR.

98. **Does the Board agree with the recommendation?**

#### C.5 NZ SAE 1 considerations - fees

99. IESSA requires the disclosure of fees for sustainability assurance engagements:
- *“If laws and regulations do not require a sustainability assurance client to disclose sustainability assurance fees, fees for services other than the sustainability assurance engagement [...] and information about fee dependency, the firm shall discuss with those charged with governance of a sustainability assurance client that is a public interest entity:*
    - (a) The benefit to the client’s stakeholders of the client making such disclosures [...], taking into account the timing and accessibility of the information; and*
    - (b) The information that might enhance the users’ understanding of the fees paid or payable and their impact on the firm’s independence.” (R5410.30).*
  - *“After the discussion with those charged with governance [...], the firm shall publicly disclose:*
    - (a) Fees paid or payable to the firm and network firms for the sustainability assurance engagement;*
    - (b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the reporting period for the engagement. ;[...];*
    - (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the sustainability assurance client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm’s independence; and*
    - (d) If applicable, the fact that the total fees received by the firm from the sustainability assurance client represent, or are likely to represent, more than 15% of the total fees.” (R5410.31)*
100. There is an ongoing discussions between XRB staff as to whether the disclosure of fees should be addressed by reporting standards. The XRB sets both reporting and assurance standards therefore there is an opportunity to work across the teams.

101. FRS 44 currently requires reporting entities to disclose fees incurred for services (using specified categories) provided by audit firms. Therefore, financial statements include disclosures of fees, including fees for GHG assurance engagements, if they are performed by auditors. However, there is no specific requirement to disclose fees paid for the assurance engagements performed by providers other than auditors of an entity.
102. If Part 5 is adopted in New Zealand, there might be inconsistency in the information obtained by stakeholders if the disclosure will be made by those who apply Part 5 and no disclosure is made by those who apply other independence standards.
103. At the current stage we do not recommend including fee disclosure requirement into NZ SAE 1. We recommend continuing discussions across the XRB teams.

104. **Does the Board agree with the recommendation?**

### Next Steps

105. Depending on the discussion at the April meeting, staff plan to prepare a draft consultation document and exposure draft. The consultation would seek views on whether they concur with the Board's views on adoption of the IESSA's in New Zealand including compelling reason changes and impacts on NZ SAE 1.
106. As next steps, staff intend to continue monitoring the developments relating to IESSA and other professions ethical requirements including:
  - Adoption by other jurisdictions.
  - Adoption by other assurance practitioners.
  - Known issues and challenges with adoption of IESSA.
  - Matters raised by regulators.

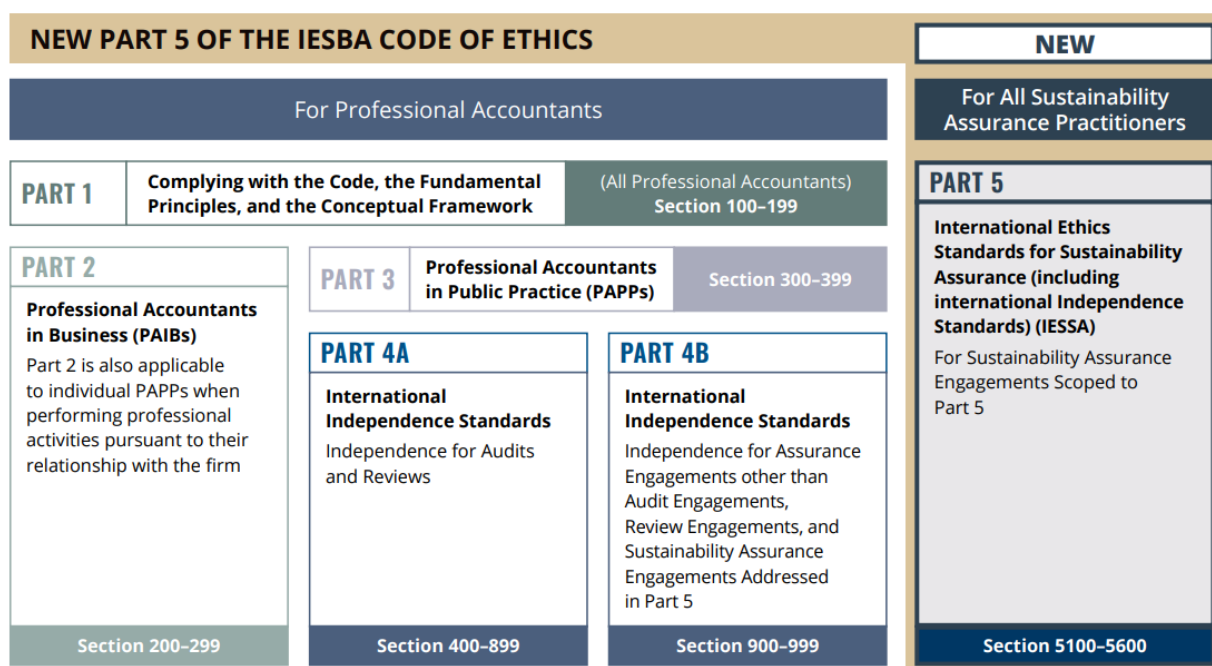
The Board agreed during the February meeting that such monitoring will inform the Board regarding next steps for the scope and application of PES 1 and next steps for the temporary standard NZ SAE 1, including informing if and when to move to one set of standards.

## Appendix 1

### Key aspects of IESSA

#### Background information

107. IESSA is drafted as a new part – Part 5 – to the IESBA’s Code of Ethics(the Code). Part 5 is drafted to be stand alone part of the Code of Ethics to facilitate the use of this part by assurance practitioners who do not apply other parts of the Code of Ethics.
108. IESSA mirrors Parts 1 to 4A of the Code, with certain, limited exceptions. The numbering of the standards in Part 5 follows the numbering used in Parts 1 to 4A with a “5” added in front.
109. The below picture illustrates how the Part 5 fits into the Code of Ethics (source: IESBA’s materials):



#### Overview of the sections included in Part 5

110. Part 5 includes:
  - **Sections 5100-5120:** Complying with Part 5, the fundamental principles and the conceptual framework – which mirrors Part 1 of the Code of Ethics.
  - **Section 5270:** Pressure to breach the fundamental principles – mirrors provisions included in Part 2 of the Code of Ethics. Part 2 applies to professional accountants in business and covers their relationships with the employing organisation (as opposed to relationships between the practitioner and the client). Therefore, most provisions of Part 2 were not replicated in Part 5. The exception was made for “Pressures to Breach the Fundamental Principles”, as the IESBA considered it important to include this section due to possible breaches of fundamental principles

that might arise in different situations and are not covered by the Part 1 of the Code. The XRB's submission was supportive of inclusion of these provisions in Part 5.

- **Sections 5300 – 5390:** mirrors Part 3 of the Code that contains specific situations regarding applying fundamental principles and conceptual framework by professional accountants in public practice. The following subsection are included:
  - Applying the Conceptual Framework
  - Conflict of Interests
  - Professional Appointments
  - Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers
  - Fees and Other Types of Remuneration
  - Inducements, Including Gifts and Hospitality
  - Custody of Client Assets
  - Responding to Non-Compliance with Laws and Regulations
  - Tax Planning Services
  - Using the Work of An External Expert.
- **Sections 5400 – 5600:** mirrors Part 4A of the Code and contains independence provisions to be applied if the sustainability assurance engagement is performed over sustainability information meeting the criteria of public interests being the same as for audits of financial statements (see more on the scope in the Issues Paper on the Scope of the IESEA). The following subsection are included:
  - Applying the Conceptual Framework to Independence for Sustainability Assurance Engagements
  - Group Sustainability Assurance Engagements *[note: this section includes also specific requirements relating to value chains]*
  - Another Practitioner Whose Assurance Work is Used in a Sustainability Assurance Engagement *[note: this section includes also specific requirements relating to value chains]*
  - Fees
  - Compensation and Evaluation Policies
  - Gifts and Hospitality
  - Actual or Threatened Litigation
  - Financial Interests
  - Loans and Guarantees
  - Business Relationships
  - Family and Personal Relationships
  - Recent Service with a Sustainability Assurance Client
  - Serving as a Director or Office of a Sustainability Assurance Client
  - Employment with a Sustainability Assurance Client
  - Temporary Personnel Assignments
  - Long Association of Personnel (Including Leader Rotation) with a Sustainability Assurance Client
  - Provision of Non-Assurance Services to a Sustainability Assurance Client.

## Appendix 2

### Various scenarios regarding scope of the IESSA

**Scenario 1** The Assurance practitioner is a member of a professional accounting body that is a member of IFAC and performs a mandatory assurance engagement over the GHG disclosures in climate statements.

The assurance practitioner needs to follow ethical and independence requirements in accordance with NZ SAE 1 and in accordance with PES 1, including Part 5 (as the IFAC membership requires the members of professional body follow the IESBA's Code of Ethics or requirements as stringent).

**Scenario 2** The Assurance practitioner is a member of a professional accounting body that is a member of IFAC and performs a voluntary assurance engagement over climate statements.

The assurance practitioner needs to follow ethical and independence requirements in accordance with PES 1, including Part 5 (as the IFAC membership requires the members of professional body follow the IESBA's Code of Ethics or requirements as stringent).

**Scenario 3** The Assurance practitioner is not a member of an IFAC professional accounting body and performs a mandatory assurance engagement over GHG Assurance disclosures in the climate statements.

The assurance practitioner needs to follow ethical and independence requirements in accordance with NZ SAE 1 and in accordance with their professional standards (for example ISO standards).

**Scenario 4** Assurance practitioner is not a member an IFAC professional accounting body and performs a voluntary assurance engagement over climate statements

The assurance practitioner follows the requirements of their profession and their accreditation bodies. This is because they do not need to follow the XRB standards. Additionally, there is no legislative requirement to follow any specific standards for voluntary assurance of other sustainability information.

**Scenario 5** Assurance practitioner is not a member an IFAC professional accounting body and voluntarily decides to apply IESSA.

The assurance practitioner:

- 1) Follows IESSA's ethical requirements when providing the sustainability assurance engagement
- 2) Follows IESSA's ethical requirements when providing any other services to the sustainability assurance client to which the sustainability assurance engagement has been provided in accordance with IESSA
- 3) Follows IESSA's independence requirements if the sustainability assurance engagement meets criteria in para 5400.3a and 5400.3b (reported information is prepared in accordance with general purpose framework and required by law or used for decision-making).



## NZAuASB Board Meeting Summary Paper

Meeting date: 9 April 2025  
 Subject: ISSA 5000  
 Date: 26 March 2025  
 Prepared By: Karen Tipper

☒ Action Required

☐ For Information Purposes Only

### Agenda Item Objectives:

1. The objectives of this agenda are to:
  - Agree whether the XRB should adopt ISSA 5000<sup>1</sup> in New Zealand;
  - Consider whether any compelling reasons changes are required to ISSA 5000 if it were to be adopted by the XRB for use in New Zealand;
  - Consider the implications for standard for the assurance of GHG statements ISAE (NZ) 3410<sup>2</sup>;
  - Consider the implications for the XRB's temporary standard for the assurance of GHG disclosures NZ SAE 1<sup>3</sup>.
  - Consider proposed next steps.

### Background

2. ISSA 5000 was approved by the IAASB in its September 2024 meeting and issued in November 2024 following approval by the PIOB.
3. The Board discussed the final standard and the IAASB's response to the XRB's submission in its October 2024 meeting. The October discussion did not include whether we should look to adopt ISSA 5000 in New Zealand which is the focus of this agenda item.
4. We have heard that some firms are already working to update their methodology for sustainability assurance engagements in line with ISSA 5000. The view expressed by some practitioners is that maintaining international alignment by the XRB is important.
5. In January 2025, the AUASB approved ASSA 5000<sup>4</sup> (aligned to ISSA 5000) and ASSA 5010<sup>5</sup> for periods beginning on or after 1 January 2025. Entities that are required to prepare a sustainability report under Section 292A for the Corporations Act in Australia are required to get their climate statements assured in accordance with the phasing outlined in ASSA 5010, with Group 1 entities

<sup>1</sup> ISSA 5000, General Requirements for Sustainability Assurance Engagements

<sup>2</sup> ISAE 3410, Assurance Engagements on Greenhouse Gas Statements

<sup>3</sup> NZ SAE 1, *Assurance Engagements over Greenhouse Gas Emissions Disclosures*

<sup>4</sup> Standard on Sustainability Assurance ASSA 5000 General Requirements for Sustainability Assurance Engagements

<sup>5</sup> Australian Standard on Sustainability Assurance ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001

requiring limited assurance of the governance, strategy – risks and opportunities and scope 1 and 2 emissions in the reporting period ending 31 December 2026.

### **Matters to Consider**

3. ISSA 5000 is an overarching standard for the assurance of all sustainability information. It is effective for periods beginning on or after 15 December 2006. In New Zealand, the only mandatory sustainability assurance engagement is the assurance of the GHG disclosures in the climate statements. This mandatory assurance is required from 31 December 2024.
4. Section A of the issues paper recommends that the XRB adopt ISSA 5000 in New Zealand.
5. Section B addresses whether there are any matters relevant to New Zealand and compelling reason changes for adoption of ISSA 5000. Staff recommend:
  1. A scoping paragraph be included to refer to NZ SAE 1 for mandatory GHG assurance.
  2. Add a requirement to include a statement as to the existence of any relationship other than that of assurance practitioner, or any interests that the practitioner has in the client.
  3. A conditional requirement be considered for the assurance practitioner to request a statement from the other practitioner as to the existence of any relationship (other than that of service auditor) which the service auditor has with, or any interests which the service auditor has in, the entity, if a report is intended to be used by the assurance practitioner.
  4. Add a requirement for the lead assurance practitioner to form a conclusion on compliance with independence requirements that apply to the engagement.

No further compelling reason changes have been identified by staff.

6. Section C considers the impact of the withdrawal ISAE 3410 by the IAASB and recommends that the XRB consult to withdraw ISAE (NZ) 3410 in New Zealand and that relevant topic specific material be included in non-authoritative guidance relevant to GHG disclosures assurance.
7. Section D analyses the implications for NZ SAE 1. Staff recommends that:
  1. the reference to ISAE (NZ) 3410 be replaced by ISSA (NZ) 5000 in our temporary standard NZ SAE 1 to require use of ISSA (NZ) 5000 for periods beginning on or after 15 December 2026 with early adoption permitted (while still permitting the use of ISO 14064:3-2019).
  2. a conditional requirement be added to NZ SAE 1 for the evaluation of one-many reports (similar to service organisation controls report). These reports are considered relevant to assurance of scope 3 disclosures and were referenced in the recent consultation on the amendments to the climate standards.

No further changes have been identified by staff at this time.

8. Section E outlines proposed next steps that are consistent with our prioritisation and workplan of monitoring the implementation of NZ SAE 1 and the standards that are used in New Zealand.

**Recommendations**

9. We recommend that the Board CONSIDER staff's recommendations and analysis in the issues paper.

**Next steps**

10. If the NZAuASB agree, a New Zealand consultation document and exposure draft for approval will be developed for discussion at the June meeting.

**Material Presented**

Agenda item	Board Meeting Summary Paper
Agenda item	Issues Paper
Agenda item	ISSA 5000 (Supplementary papers)

## Subject: International Standard on Sustainability Assurance 5000, General Requirements for Sustainability Assurance Engagements (ISSA 5000) Issues Paper

### Objectives

1. The objectives of this agenda are to:
  - A. Agree whether the XRB should adopt ISSA 5000<sup>1</sup> in New Zealand;
  - B. Consider whether any compelling reasons changes are required to ISSA 5000 if it were to be adopted by the XRB for use in New Zealand;
  - C. Consider the implications for ISAE (NZ) 3410<sup>2</sup>;
  - D. Consider the implications for NZ SAE 1<sup>3</sup>.
  - E. Consider proposed next steps.

### A. Should the XRB Adopt ISSA 5000?

2. Following preliminary discussions in February, the XRB and SRB Boards discussed the adoption of ISSA 5000 in their March meetings. Both Boards were supportive of potential adoption in New Zealand provided the standard was appropriately scoped for use.
3. Staff recommend that the XRB adopt ISSA 5000 but look to scope this for New Zealand (refer B. Matters relevant to New Zealand and Compelling Reason Changes section below) given that the mandatory assurance is a narrower scope than ISSA 5000.
4. **Does the Board agree with this recommendation?**

### B. Matters relevant to New Zealand and Compelling Reason Changes

#### B.1 Scope

5. In New Zealand, the mandatory sustainability assurance regime is the assurance of the GHG disclosures in the climate statements. This assurance must be performed in accordance with our temporary assurance standard NZ SAE 1. This standard relies on the use of one of two international standards; ISAE (NZ) 3410 or [ISO 14064-3:2019](#)<sup>4</sup>.
6. The scope of ISSA 5000 is much broader than GHG disclosures and includes:
  - a. All assurance engagements on sustainability information. This includes all types of information regardless of how this is presented and assurance over the whole or part of a reporting framework. ISSA 5000 is the IAASB's standard to be used for the assurance of GHG emissions disclosures and statements.
  - b. Reasonable and limited assurance engagements.
  - c. Attestation engagements.

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<sup>1</sup> ISSA 5000, General Requirements for Sustainability Assurance Engagements

<sup>2</sup> ISAE 3410, Assurance Engagements on Greenhouse Gas Statements

<sup>3</sup> NZ SAE 1, *Assurance Engagements over Greenhouse Gas Emissions Disclosures*

<sup>4</sup> ISO 14064-3:2019 Specification with guidance for the verification and validation of greenhouse gas statements

7. The AUASB has scoped ISSA 5000 for the purposes of their mandatory sustainability assurance regime as follows:

- Replaced references to the IESBA Code to be Part 5 of the International Ethics Standards for Sustainability Assurance (Including International Independence Standards)
- Prohibited the use of internal auditors to provide direct assistance in a sustainability assurance engagement. This is consistent with the prohibition of direct assistance in ASA 610<sup>5</sup>

Both of these scoping considerations are not relevant for New Zealand. ISA (NZ) 610<sup>6</sup> does not include a prohibition on direct assistance and the new Part 5 to the IESBA Code is considered in a separate agenda item.

8. The NZAuASB, the XRB and SRB all discussed the need to consider the scope of ISSA 5000 for New Zealand. The following risks have been identified for the XRB if it were to adopt ISSA 5000:

- Risk 1: If ISSA 5000 is adopted, this may be seen to replace our temporary standard NZ SAE 1 as the GHG disclosures in the climate statements would meet the definition of sustainability information and be in scope of ISSA 5000. ISSA 5000 does not allow the use of the ISO standard.
- Risk 2: If adopted without changes, ISSA 5000 may be interpreted to be mandatory for all sustainability assurance engagements in New Zealand that may now be completed in accordance with other standards, including ISO standards, even when these are undertaken voluntarily.

## Mitigation

### Risk 1.

9. If the XRB were to adopt an equivalent, ISSA (NZ) 5000, to prevent assurance practitioners from applying this standard alone, instead of NZ SAE 1, staff recommend that the XRB add a scoping paragraph to ISSA (NZ) 5000. This New Zealand paragraph could be worded as follows:

The assurance practitioner shall apply NZ SAE 1 when conducting an assurance engagement for the disclosures within the climate statements relating to GHG emissions required by the Financial Markets Conduct Act 2013 (the Act) to be the subject of an assurance engagement.

10. **Does the Board agree with this recommendation to add a scoping paragraph into ISSA (NZ) 5000?**

### Risk 2:

11. The XRB would not want to prohibit non-accountant practitioners from applying ISSA (NZ) 5000 but would not want to infer that it must be applied for all sustainability assurance engagements in New Zealand, nor that it would replace standards they may use for voluntary assurance or where there is no requirement to apply XRB standards.
12. Additional wording could be included in the standard to reflect the voluntary nature of the standard, but this is not something that has been included in other assurance standards that have been applied by a range of assurance practitioners. Staff do not recommend that further wording should be added to the standard for Risk 2.
13. Another option could be to follow a communication strategy that could include the following:
- that NZ SAE 1 is the standard to be used for mandatory assurance engagements over the GHG disclosures in the climate statements,

<sup>5</sup> Auditing Standard ASA 610 Using the Work of Internal Auditors

<sup>6</sup> ISA (NZ) 610 (Revised 2013) Using the Work of Internal Auditors

- that ISSA (NZ) 5000 or ISO 14064-3:2019 are the two international standards that are required to be used for NZ SAE 1 engagements,
  - that ISSA (NZ) 5000 may be used for voluntary assurance engagements but that it is not required to be used
14. These messages could be reiterated at deep dive and need-to-know webinars, on the XRB website as well as inclusion in FAQs, LinkedIn, etc.
  15. Staff recommend developing a clear communications strategy to address this risk and to communicate the scope of the standard.
  16. **Does the Board agree with these recommendations?**

## B.2 Key Matters

17. As included in the Key Matters section in the Appendix, key matters were not included in ISSA 5000. These are included in NZ SAE 1. It is not proposed that these be mandated in ISSA (NZ) 5000, for the following two reasons:
  - NZ SAE 1 requires these to be included if identified for the mandatory GHG disclosures assurance.
  - ISSA 5000 does not prohibit Key Matters from being included by the assurance practitioner
18. **Does the Board agree with these recommendations?**

## B.3 Service Organisations

19. ISSA 5000 includes the concept of the one-to-many report as described in the Appendix. This is similar to an assurance report that may be provided over a service organisation for the purposes of a financial statement audit.
20. In New Zealand, we included a requirement in ISAE (NZ) 3402<sup>7</sup> for a service organisation assurance practitioner to include a statement as to the existence of any relationship (other than that of service auditor) which the service auditor has with, or any interests which the service auditor has in, the entity.
21. As ISSA 5000 is an overarching standard and does not specify the requirements for service organisation assurance practitioners or for one-to-many assurance report assurance practitioners, it is not considered appropriate that this requirement be replicated in ISSA (NZ) 5000.
22. Staff recommend that a conditional requirement be considered for the assurance practitioner to request a statement from the other practitioner as to the existence of any relationship (other than that of service auditor) which the service auditor has with, or any interests which the service auditor has in, the entity, if a report is intended to be used by the assurance practitioner.
23. Staff recommend testing this with stakeholders during the proposed consultation.
24. **Does the Board agree with this recommendation?**

## B.4 Effective Date

25. The effective date of ISSA 5000 is for periods beginning on or after 15 December 2026 or as at a specific date on or after 15 December 2026. Early adoption is permitted.
26. Staff identified no compelling reasons to change the application date in New Zealand. We recommend that early adoption is permitted, but not required.

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<sup>7</sup> ISAE (NZ) 3402, Assurance Reports on Controls at a Service Organisation

27. **Does the Board agree with this recommendation?**

## B.5 Consideration of NZ amendments to ISAE (NZ) 3000<sup>8</sup>

28. ISAE (NZ) 3000 includes a requirement that the assurance practitioner's report shall include a statement as to the existence of any relationship (other than that of assurance practitioner) which the assurance practitioner has with, or any interests which the assurance practitioner has in, the entity or any of its subsidiaries. This is not included in ISSA 5000 and staff recommend that this be included in ISAE (NZ) 5000.
29. ISAE (NZ) 3000 includes a NZ requirement that the [lead assurance practitioner](#) shall form a conclusion on compliance with independence requirements that apply to the engagement. In doing so, the [lead assurance practitioner](#) shall:
- Obtain relevant information from the [firm](#) and, where applicable, network firms and experts used, to identify and evaluate circumstances and relationships that create threats to independence;
  - Evaluate information on identified breaches, if any, of the [firm's](#) independence policies or procedures to determine whether they create a threat to independence for the [assurance engagement](#); and
  - Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement, where withdrawal is possible under applicable law or regulation. The [lead assurance practitioner](#) shall promptly report to the [firm](#) any inability to resolve the matter for appropriate action.
30. This is not included in ISSA 5000. Staff consider that this is applicable to sustainability assurance engagements and this conclusion on compliance should be included in the assurance report for ISSA (NZ) 5000.
31. **Does the Board agree with these recommendations?**

## C. Implications for ISAE (NZ) 3410 in New Zealand

32. In March the IAASB voted to withdraw ISAE (NZ) 3410, to be replaced internationally by ISSA 5000 effective for periods beginning on or after 15 December 2025, As such the XRB needs to consider:
- What the XRB should do with ISAE (NZ) 3410 and whether ISAE (NZ) 3410 is used for any legislative purpose (other than in NZ SAE 1)
  - whether ISSA 5000 is suitable to replace ISAE (NZ) 3410 in NZ SAE 1 as the standard to be used for GHG assurance in New Zealand with NZ SAE 1 continuing to be the standard used for the assurance of GHG disclosures.
33. Staff analysed when ISAE (NZ) 3410 is used in New Zealand and if its use is required by legislation. Staff did not identify any reference in legislation to ISAE (NZ) 3410 and did not identify a legislative requirement that would necessitate the XRB to retain this standard.
34. The [analysis](#) provided by the IAASB comparing the requirements of ISAE (NZ) 3410 and ISSA 5000 has been reviewed. This analysis confirms that most requirements in the two standards are aligned but there are specific GHG explanations that are not included in ISSA 5000.
35. Staff consider that ISSA 5000 includes the latest best practice requirements and application material relevant to GHG assurance, e.g., the group engagement and value chain considerations, including one-to-many reports, which were identified as important in the context of assurance over scope 3 GHG emissions.

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<sup>8</sup> ISAE (NZ) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information

When ISAE 3410 was developed, assurance of scope 3 emissions was commonly seen as optional, noting that it would be impractical for nearly any entity to attempt to quantify the full extent of its indirect emissions ([paragraph A31 of ISAE \(NZ\) 3410](#)).

36. Some “education” material in ISAE (NZ) 3410 is included in reporting frameworks, e.g. the definitions [in paragraph 14 of ISAE \(NZ\) 3410](#) of GHG specific terms such as base year, cap and trade purchased offset, etc. These definitions would not usually be included in an assurance standard and their inclusion reflects the emerging nature of GHG reporting and assurance in 2011 when ISAE (NZ) 3410 was issued.
37. As an overarching standard for the assurance of all sustainability information, ISSA 5000 is not specific to GHG. As New Zealand’s mandatory assurance regime is limited to the assurance of the GHG disclosures, staff has analysed the requirements and application material included in ISAE (NZ) 3410 to consider whether we should retain this for our mandatory regime. This analysis indicated the following application material that staff consider useful to retain for our mandatory regime and the reasons for this:
  - Materiality application material. This includes considerations for materiality of different emission scopes (refer [ISAE \(NZ\) 3410 paragraph A44](#)).
  - Competency application material that includes specific GHG competencies that may be relevant. This is specific to GHG (refer [ISAE \(NZ\) 3410 paragraph A18](#)). The key elements of these have already been included in NZ SAE 1.
  - Considerations of scientific and estimation uncertainty (refer [ISAE \(NZ\) 3410 paragraph A54](#)) in particular, the reminder that an entity’s emissions are subject to uncertainty but this does not mean that an entity’s emissions are inappropriate as a subject matter. This is important context highlighted in recent discussions and staff believe it is important to retain, and we have included this in developing staff guidance on scope 3 GHG emissions.
  - Consideration of performing procedures on location at an entity’s facility. This is not specifically addressed by ISSA 5000 (refer [ISAE \(NZ\) 3410 paragraph A74](#)). Site visits are required by ISO 14064:3-2019. Staff consider this application material should be retained to highlight that a site visit may be a relevant consideration for GHG disclosures assurance depending on the assurance practitioner’s professional judgement and the nature of the GHG emissions.
  - Examples of areas which might be incentives for intentional misstatement of GHG disclosures (refer [ISAE \(NZ\) 3410 paragraph A61](#), [ISAE \(NZ\) 3410 paragraph A86](#)).
  - Examples of GHG specific risks of material misstatements (refer [ISAE \(NZ\) 3410 paragraph A79](#))
  - Further procedures including agreeing emissions factors to appropriate sources (for example, government publications), and considering their applicability in the circumstances. (refer [ISAE \(NZ\) 3410 paragraph A94](#)).
38. There are a few options about how the XRB could choose to retain this material. It could be provided in non-authoritative staff guidance, or included as an FAQ or added to NZ SAE 1. When developing NZ SAE 1, these areas were considered when comparing ISO and ISAE (NZ) 3410 requirements. It was agreed then that application material on materiality and site visits etc., should not be included in the temporary standard. As most of this material identifies areas for consideration by the assurance practitioner rather than requirements, staff recommend including these as non-authoritative staff guidance if ISAE (NZ) 3410 is withdrawn.
39. **Does the Board agree with this recommendation?**
40. Given the withdrawal of ISAE (NZ) 3410, the XRB has a few options, which are not mutually exclusive:
  - Option 1 -Retain ISAE (NZ) 3410 for use in New Zealand as a domestic standard.



- Option 2 – Withdraw ISAE (NZ) 3410 and replace the reference in NZ SAE 1 to ISSA 5000
  - Option 3 - Withdraw ISAE (NZ) 3410 and include relevant material from ISAE (NZ) 3410 as non-authoritative guidance.
41. Option 1- Retain ISAE (NZ) 3410: Pros
- Assurance practitioners are familiar with this standard.
  - It is subject specific to GHG emissions.
42. Option 1 – Retain ISAE (NZ) 3410 : Cons
- ISAE (NZ) 3410 is over 13 years old, and thinking has improved since this standard was issued.
  - ISSA 5000 includes more recent practices and firms are already working to adjust their methodology accordingly This option would not be internationally aligned and may require practitioners to develop specific methodologies to continue use the specific requirements in this standard as their firms move to embed ISSA 5000 into their methodologies.
43. Option 2: Withdraw ISAE (NZ) 3410 and replace with ISSA (NZ) 5000: Pros
- This would be internationally aligned as ISAE 3410 is being withdrawn and ISSA 5000 is intended to be used for GHG assurance internationally.
  - ISAE (NZ) 3410 was published in 2011. This standard does not include up-to-date thinking and best practice.
44. Option 2: Withdraw ISAE (NZ) 3410 replace with ISSA (NZ) 5000: Cons
- ISAE (NZ) 3410 is subject specific to GHG, ISSA 5000 is an overarching standard. ISAE (NZ) 3410 includes context and specific considerations that could be relevant to the mandatory assurance regime. Staff has performed this analysis, above, the requirements in ISAE (NZ) 3410 have been aligned to ISSA 5000 and no additional requirements were identified from analysis that would need to be separately included in NZ SAE 1.
45. Option 3 – Pros Withdraw ISAE (NZ) 3410 and include relevant material from ISAE (NZ) 3410 as non-authoritative guidance
- This would allow the subject specific areas identified in the analysis above from the ISAE (NZ) 3410 application material analysis to be retained.
  - This would be internationally aligned.
46. Option 3: Withdraw ISAE (NZ) 3410 and include relevant material from ISAE (NZ) 3410 as non-authoritative guidance. Cons
- Including as non-mandatory staff guidance would mean that this could be seen as optional by practitioners and may not be used.
47. Staff recommend that we withdraw ISAE (NZ) 3410 in New Zealand, and that we include relevant guidance on GHG specific topics is staff guidance.
48. **Does the Board agree with this recommendation?**

## D Implications for NZ SAE 1

### D.1 Replace reference to ISAE (NZ) 3410 with ISSA (NZ) 5000

49. Based on the recommendation to withdraw ISAE (NZ) 3410, we recommend that the references in NZ SAE 1 be updated so that the reference to ISAE (NZ) 3410 be replaced by ISSA (NZ) 5000. (Note that this would only be mandatory periods beginning on or after 15 December 2026). ISO standard users would retain the option

to use ISO 14064-3:2019, and would not be required to apply ISSA (NZ) 5000, in line with the temporary nature of NZ SAE 1.

50. Proposed drafting for this amendment in extant NZ SAE 1 (with strike through and underlines to show the change) could be as follows:

11. When conducting the [assurance engagement](#) required by the Financial Markets Conduct Act 2013, the [assurance practitioner](#):  
 (a) *Shall comply with either ISO 14064-3: 2019 Greenhouse gases — Part 3: Specification with guidance for the verification and validation of greenhouse gas statements<sup>4</sup> or ~~ISAE (NZ) 3410 Assurance Engagements on Greenhouse Gas Statements~~ ISSA (NZ) 5000 General Requirements for Sustainability Assurance Engagements*

51. **Does the Board agree with this recommendation?**

## D.2 Main Themes of ISSA 5000

52. Staff has summarised the main themes in ISSA 5000 in the Appendix to this Agenda. We have analysed these themes to see if any additional material needs to be replicated or included in NZ SAE 1 for consistency purposes and for use by ISO practitioners if the references to ISAE (NZ) 3410 are replaced by ISSA 5000.

## D.3 Value Chain

53. The Value Chain is not included in NZ SAE 1. The concept of value chain is relevant as scope 3 disclosures are subject to mandatory assurance. During our recent consultation on the amendments to the climate standards, the use of service organization and controls reports were highlighted by practitioners for third party data providers.
54. NZ SAE 1 includes high level principles for the use of the work of others (refer paragraph [26](#)). Two of these requirements state that, if the assurance practitioner intends to use the work of others that they shall:
- agree the nature, scope and objectives of their work.
  - evaluate the adequacy of the work performed for their purposes.
55. ISSA 5000 includes similar requirements but has an additional requirement (refer appendix for details) if the practitioner plans to use an assurance report of another practitioner that has been designed for use by user entities.
56. Staff recommend including a requirement to address requirements for one-to-many reports and asking this question in a New Zealand consultation paper. This requirement would be included to drive consistency across practitioners.
57. Proposed drafting could be:

*In agreeing the nature of the work performed in accordance with paragraph 26 (d) and evaluating the adequacy of the work in accordance with paragraph 26 (e), if a practitioner plans to use an assurance report of another practitioner that has been designed for use by user entities and their assurance practitioner across a value chain (a one-to-many report), the practitioner shall determine whether the assurance report provides sufficient appropriate evidence for their purposes by evaluating:*

- a) Whether the description of the procedures performed and the results thereof are appropriate for the assurance practitioner's purposes; and*
- b) The adequacy of the standard(s) under which the assurance report was issued.*

**58. Does the Board agree with this recommendation and that we consult on whether we should include an additional requirement for one-to-many reports in NZ SAE 1?**

## D.4 Use of the Work of Others

59. NZ SAE 1 includes high level principles for Use of the Work of Others as detailed in the Appendix. Staff consider that these are appropriate at the principle level and did not identify any new concepts (other than the one-to-many reports) that staff recommend be included in NZ SAE 1.

## D.5 Groups

60. Groups are not referenced in NZ SAE 1 and are not included in ISAE (NZ) 3410 and in ISO 14064:3-2019. If ISSA (NZ) 5000 replaces ISAE (NZ) 3410 as one of the two international standards to be used in NZ SAE 1, these group requirements will be applicable for assurance practitioners using ISSA (NZ) 5000 but there will be no similar requirements for ISO practitioners.
61. The new requirements included in ISSA 5000 are informed by ISA 600<sup>9</sup>. NZ SAE 1 includes principles-based requirements for engagements. Staff consider that the principles approach can be applied to groups and this approach is appropriate for the narrow scope assurance of the GHG disclosures in the climate statements. From the analysis in the Appendix, staff do not propose any changes to NZ SAE 1 for groups.

## D.6 Materiality

62. The approach to applying materiality when identifying and assessing the risk of material misstatement is aligned to the approach in ISAE (NZ) 3410. (Refer appendix). Staff consider that no changes should be made to NZ SAE 1 given this aligns with the approach that was considered when NZ SAE 1 was drafted.

## E Next Steps

63. As next steps, staff intend to continue to take a learning and monitoring approach. This will include:
- Keeping abreast of International Organization for Standardization (ISO) developments, including the new sustainability assurance standard that is being drafted by ISO and the proposed review of ISO 14064:3-2019<sup>10</sup>.
  - The International Accreditation Forum's co-ordination with IAASB.
  - Monitoring who is engaged to perform the assurance over GHG emissions as it moves into the mandatory regime and what standards are used for this engagement, refer agenda item for GHG snapshot for the overview of 2024.
64. All of these activities will provide more evidence to inform next steps for the XRB's temporary standard.

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<sup>9</sup> ISA 600 (revised) *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>10</sup> *ISO standards are subject to review and potential revision every 5 years meaning that 14064:3 -2019 is due for review. This review process has not been started. We are monitoring any developments and have a staff member on the New Zealand ISO committee for this standard to influence and keep up with developments as this is very relevant to NZ SAE 1. Once this review process is completed, we would need to assess this standard for use in our mandatory regime and if appropriate update the reference in our temporary standard NZ SAE 1.*

65. Staff will prepare a draft consultation paper and exposure draft for the June meeting following the discussion on the matters covered in this agenda item.

## Appendix

### ISSA 5000 Content

66. In its October 2024 meeting, the Board discussed the issues raised in the XRB's submission to the IAASB on proposed ISSA 5000 to consider how these issues were included in the standard. This paper will not address these issues but will focus on the key areas that were discussed by the IAASB in finalizing this standard and the new considerations that are included in ISSA 5000.

### ISSA 5000 and ISAE (NZ) 3410 Assurance Engagements on Greenhouse Gas Statements

67. The exposure draft of ISSA 5000 proposed to apply to all assurance engagements on sustainability information, except when the assurance practitioner is providing a separate conclusion on a GHG statement in which case ISAE (NZ) 3410 applies.
68. Following feedback from stakeholders that the scope of the standard was not clear, the IAASB updated the scope to apply to all assurance standards on sustainability information, including GHG statements (para. 8).
69. The IAASB compared the requirements of ISAE (NZ) 3410 to ISSA 5000 and amended the risk assessment requirements (ISSA 5000, 122L) to reflect the risk assessment process in ISAE (NZ) 3410.
70. The IAASB voted to withdraw ISAE (NZ) 3410 at their March 2025 meeting.

### Value Chain

71. Value chain is not defined in ISSA 5000, rather is a concept that may be relevant in sustainability reporting criteria. Value chain components are entities outside of the group reporting boundary and include entities that are part of the reporting entity's upstream or downstream value chain. As a result, ISSA 5000 includes considerations for value chain components (refer paragraph A17). Value chain components are defined in the IESSA.
72. To address the practical challenges of gaining assurance over information that may come from the value chain, "One to many reports" are included as a new concept in ISSA 5000 (refer paragraph 51). The new requirements were informed by requirements that exist when auditors rely on reports of controls from service organisations, but have been broadened so as not to solely focus on controls<sup>11</sup>.
73. In making the evaluation of whether another practitioner has necessary competence or capabilities for the practitioner's purposes or evaluating whether the nature, scope and objectives of that practitioners work are appropriate for the practitioner's purposes, if the practitioner plans to use an a one to many report, the practitioner shall determine whether the assurance report provides sufficient appropriate evidence for their purposes by evaluating:
- Whether the description of procedures performed, and results are appropriate
  - the adequacy of the standard under which the report was produced.
74. Additional application material has been included in paragraphs A252 - A255. There may be limitations on management's ability to obtain information from the value chain entities, but the practitioner is still required to obtain sufficient, appropriate evidence. Application material included as paragraphs A289 -A290 includes a process for testing management process that may be considered where there are limitations access to information from a value chain entity.
75. These considerations and application material are relevant to the assurance of scope 3 emissions disclosures which include value chain. Support was heard for the concept of one-to-many reports during our recent consultation on the Amendments to the Climate Standards.

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<sup>11</sup> These requirements were based on <https://standards.xrb.govt.nz/standards-navigator/isa-nz-402/#17>

## Groups

76. ED-5000 did not include specific requirements for groups as it was deemed inappropriate for an umbrella standard. Feedback from stakeholders noted that the entities required to report sustainability reports are likely to be groups, and that ISSA 5000 needed to address groups specifically to avoid inconsistency in approaches.
77. The IAASB added requirements for group engagements as well as group specific terminology. This included:
- Definitions of groups and components (refer paragraph 18) based on ISA 600 (Revised).
  - A conditional requirement based on paragraph 22 of ISA 600<sup>12</sup> (refer paragraphs 96, and A277-A287) for group sustainability assurance engagements for the assurance practitioner to determine the overall strategy and engagement plan.
  - A requirement (refer paragraph 60) for the assurance practitioner to determine that communications occur at appropriate times during the engagement between the engagement team, practitioner's expert and the internal audit function (where applicable).
  - Conditional requirements (refer paragraphs 151L and 151R) to design and perform further procedures to response to the assessed risk of material misstatement from the aggregation process for group sustainability information.

## Use of Work of Others

78. ED-5000 proposed that for the practitioner to use the work of others, they needed to be sufficiently and appropriately involved in the work (refer paragraph 42 of ED-5000). If the work of another practitioner is considered relevant and they can be involved, the engagement team requirements would apply. If they could not be sufficiently and appropriately involved, then the requirements for another practitioner apply.
79. In response to feedback, a definition of "another practitioner" was included (refer paragraph 18 ISSA 5000) and defines that another practitioner is not part of the engagement team.
80. Nothing has been identified in these new requirements that would impact NZ SAE 1 requirements that cover principles for the use of work of others<sup>13</sup>.

## Materiality

81. The IAASB heard mixed views about the assurance practitioner's approach to identifying and assessing the risk of material misstatement and how materiality is applied when doing so. Two different views were identified as follows:
- The entity's process to determine what sustainability information should be reported should identify the disclosures that management believes are material based on the users' needs. As such, the assurance practitioner should view all disclosures as material and identify, assess and respond to the risk of material misstatement across all disclosures (refer paragraph 59 of the basis for conclusions)
  - That the disclosures provide a starting point for the assurance practitioner's approach to the engagement, but that the assurance practitioner may determine to group the sustainability information differently for a more effective approach (refer paragraph 267 ED-5000)
82. Ultimately, the IAASB decided that the identification and assessment of risks is based on the assurance practitioner's understanding gained from performing their risk assessment procedures and applying their

<sup>12</sup> <https://standards.xrb.govt.nz/standards-navigator/isa-nz-600/#22>

<sup>13</sup> <https://standards.xrb.govt.nz/standards-navigator/nz-sae-1/#26>

materiality. The practitioner will group the disclosures in a logical way that will consider the needs of the intended users. The IAASB made several updates to the application material in the standard to provide more detail about any considerations that may affect the practitioners' decisions about grouping disclosure (refer paragraphs A284-A287), or the manner in which they may group the disclosures (refer paragraphs A404-A414).

### Key Audit Matters (KAM)

83. Key Audit Matters were not included in ED-5000, but the IAASB did acknowledge their significance and the potential public interest benefits of communicating these. There was strong support for not including these in the final standard and it was noted that communicating KAM in a limited assurance engagement may be confusing for users given that a summary of work performed section is required in limited assurance reports.
84. ISSA 5000 does not preclude the inclusion of KAMs by national standards setters. Key Matters are required by the XRB's temporary standard for the assurance of GHG disclosures ([refer paragraph 48 NZ SAE 1](#) )

### Communication with Financial Statement Auditor

85. A requirement has been included (refer ISSA 5000, paragraph 174) that if other information includes the entity's financial statements and the sustainability assurance practitioner identifies a material inconsistency between the financial statements and the sustainability information or becomes aware that the financial statements appear to be materially misstated, the sustainability assurance practitioner is required to communicate that to the auditor.
86. Application material has been added (refer ISSA 5000, paragraph 279) to encourage communication between the sustainability assurance practitioner and the auditor on matters that may be of mutual interest.
87. Application material (refer ISSA 5000, paragraph A14) that acknowledges the sustainability reporting framework may permit sustainability information to be incorporated by reference from other sources. If this information is within the scope of the sustainability assurance practitioner, the sustainability assurance practitioner may intend to obtain evidence from the work performed by the financial statement auditor and would need to apply the requirements about using the work of another practitioner.
88. The Aotearoa Climate Standards permit cross referencing<sup>14</sup> so this may be relevant in the New Zealand context but given that the assurance is limited to the GHG disclosures it is highly unlikely that these disclosures will need to be cross-referenced to the financial statements.

### Inherent Limitations

89. A paragraph on inherent limitations shall be included in the assurance report if applicable (refer paragraph 190g). In comparison to ISAE (NZ) 3410, where wording is provided for this paragraph, no wording is included in the illustrative assurance reports to avoid a boilerplate paragraph.
90. The NZ SAE 1<sup>15</sup> assurance report shall include a statement that GHG quantification is subject to inherent uncertainty is required.

### Targets

91. ED-5000 was unclear whether targets or goals could be assured. This has been clarified in ISSA 5000 (refer paragraph A244) to include that when a disclosure relates to a future strategy, the practitioner may focus their evidence-gathering activities on whether the entity have an intention to follow that strategy, that the target exists or that there is reasonable basis for the intended strategy or target.

<sup>14</sup> <https://standards.xrb.govt.nz/standards-navigator/nz-cs-3/#16>

<sup>15</sup> <https://standards.xrb.govt.nz/standards-navigator/nz-sae-1/#55>

## NZAuASB Board Meeting Summary Paper

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**Meeting date:** 9 April 2025  
**Subject:** ISA (NZ) for Less Complex Entities (LCE)  
**Date:** 27 March 2025  
**Prepared By:** BM


**Action Required**

**For Information Purposes Only**

### Agenda Item Objectives

1. The Objective of this agenda item is to:
  - CONSIDER the feedback received on the exposure draft of the ISA (NZ) for LCE, and
  - DISCUSS next steps.

### Background

2. The Board approved a consultation document on the ISA (NZ) for LCE in October 2024.
3. On 1 November 2024 we launched our consultation, this closed on 27 February 2025. This consultation process was longer than the standard 90 days due to the Christmas break.
4. Consultation revolved around three main areas:
  - Whether to adopt the standard in New Zealand: Will auditors use the ISA (NZ) for LCE if it is adopted in New Zealand, do users/preparers and others support its adoption and use.
  - The applicability of the standard in New Zealand: To specifically prohibit FMC HLPAs and have no quantitative threshold.
  - Service Performance Information: If and how to incorporate the audit of service performance information within the New Zealand Standard.
5. Feedback was received via the methods listed in the appendix. We received 26 written responses from public sector agencies (2), regulators (3), users (2), preparers (4), auditors (12), and other (academic/ audit software provider) (3). We also received feedback at events and discussions. We thank those who provided feedback.
  - Overall sentiment is positive for the adoption of the ISA for LCE in New Zealand. Many auditors who have responded will use the standard. “Let’s give it a go” were the concluding comments at our panel discussion.
  - At the Audit Assistant conference, with over 100 attendees from small to medium sized audit firms, there was general support that they would use the standard. The software provider confirmed that they look at developing a template to enable compliance with the standard.
  - The Auditor-General reconfirmed his support. CPA Australia and CAANZ are also supportive – making a joint submission, after having held their own discussions with their members.



6. We recognise that there are auditors who won't use the standard:
  - Five audit firms that are part of international networks whose methodology is restricted to the ISAs are unlikely to have NZ domestic workpapers developed at this stage.
  - One audit firm who does not see the need of this regime in NZ, and that the current auditing standards are already scalable.
7. Copies of the written submissions are in the supplementary board pack should the board wish to read them. Considering all feedback received, staff recommend the XRB adopts the ISA (NZ) for LCE.

### **Matters to Consider**

8. The Board is asked to consider the feedback received and staff analysis:
9. **Does the Board agree the benefits of adoption outweigh the associated costs/risks and that there will be sufficient use of the standard to recommend that the XRB should adopt the ISA (NZ) for LCE?**
10. **Does the Board agree that the applicability of the standard in NZ should be finalised as proposed, specifically to prohibit FMC HLPAs and no additional quantitative threshold prohibitions?**
11. **Does the Board agree to include and enhance Part 11, dealing with service performance information, based on the feedback received?**
12. A separate paper analyses drafting suggestions from respondents to enhance the exposure draft. To assist next steps the Board are asked:
  - **Do you agree that staff should consider suggestions to enhance Part 11 to simplify and clarify certain aspects of the Essential Explanatory Material and requirements.**
  - **With respect to Part 11, do you agree that no further changes are needed to: simplify terminology, remove references to the entity's measurement bases or evaluation methods in the opinion etc., or remove the requirement for these methods or bases to be available to intended users**
  - **With respect to the rest of the ISA (NZ) for LCE, do you agree to add a requirement to obtain a legal letter from in-house counsel, but that no further changes, based on feedback received is needed, given our approach on harmonisation and convergence?**
13. **If the Board does not agree to adopt the ISA (NZ) for LCE, what other steps shall the XRB take to support audits of LCEs in New Zealand?**

### ***Next steps***

14. We will update the XRB Board on feedback received and the NZAuASB discussion.
15. If the Board agrees to progress, we will:
  - Work through the suggestions for enhancements to the exposure draft
  - Aim to present an updated standard, based on these recommendations at the June meeting.
  - Continue to enhance our communication plan and ongoing implementation support.

### **Material Presented**

Agenda item	Board Meeting Summary Paper
Agenda item	Analysis of submissions
Agenda item	Analysis of drafting suggestions
Supplementary agenda item	Submissions received

## Appendix

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### Consultation

Various initiatives and events were undertaken to encourage feedback, including:

- a. A consultation page on the XRB's website that included links to further IAASB information videos, events, and further guidance. We encouraged feedback via: email, uploading files to our website, LinkedIn, an easy to use Microsoft form which included each question from the consultation document set out on an electronic-form, and at our events.
- b. [Walk-through Webcast](#), published 28 November 2024 – 130 views at 28 February.
- c. Panel event held 17 February 2025 – 106 participants. A copy of the event is [online](#) with 56 views at 28 February.
- d. Two feedback forums (one for users and another for auditors – to share information and obtain feedback) and Two drop-in sessions (for anyone - to obtain feedback) held in the week of 10 February, with a total of 37 participants across 4 events.
- e. A presentation on the ISA (NZ) for LCE to the Audit Assistant [conference](#) on 7 March 2025 in Auckland to 101 attendees.
- f. Emails and discussions with a variety of people and organisations including practitioners, MBIE, CPA Australia, FMA and Charities Services. An estimated 529 emails were sent to auditors, funding organisations, government agencies and others who we identified as could be impacted by this standard.
- g. Links to our consultation appeared in:
  - i. several XRB LinkedIn posts and newsletters,
  - ii. the November and December CAANZ reporting and assurance newsletters,
  - iii. the November and December CPA Australia newsletters,
  - iv. December and February Charities Services' newsletters,
  - v. a [blog post](#) by the audit software company, Audit Assistant, and our consultation also appeared in their December newsletter.

## ISA (NZ) for LCE: Issues paper and summary of feedback

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1. This document analyses the feedback received on the ISA (NZ) for LCE consultation document and exposure draft (ED).
2. To prepare this document, we followed a structured approach comprising these key steps:
  - Receipt of ED feedback: We collated all responses and summarised the feedback received. Feedback included written and verbal responses received at events or discussions, including via polls, chat and Q&A. To ensure balance when considering feedback, we have removed poll votes and comments received in the events for those who provided written submissions.
  - Group by stakeholder type: Feedback is categorised between User/Preparers (accountants, charities, government agencies), Auditors, Regulators (CAANZ/CPA Australia, Charities Services, OAG) and Other (such as audit software provider and academic). Of the 26 written responses received: 12 are grouped as Auditors, 8 User/Preparers, 3 regulators and 3 Other.
  - Summarise feedback: All feedback was reviewed, grouped and then summarised below
3. As outlined in our [consultation document](#), we accepted feedback on any or all of the questions. So not all questions were answered to by all respondents. At the events, not all poll questions were answered by all attendees.
4. This document follows the following structure, by question:
  - 26 Written responses, summarised
  - Responses received in events (including from discussions)
  - Staff conclusion or analysis on the responses received
  - Matters for consideration by the Board as they read the analysis
5. Three respondents provided further drafting suggestions, these are considered in the next paper at agenda item 6.3.

## Question 1

Do you agree with the potential benefits and costs/risks as outlined? Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

### Written Submissions:

#### Agree with the potential benefits and costs/risks as outlined?

- 16/26: Yes (7 auditors, 7 User/Preparer, 2 other)
- 2/26: No (2 auditors)
- Remaining no comment or not applicable

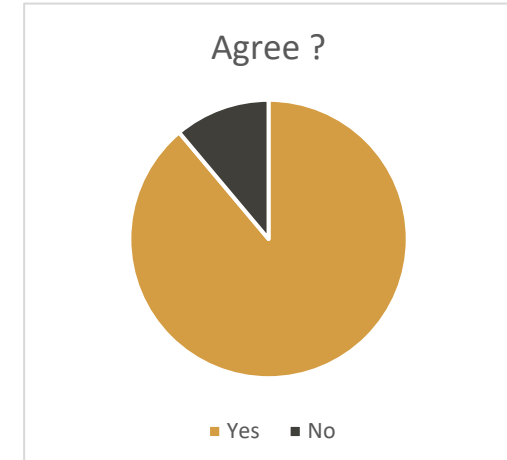
#### Summary of other benefits or costs of risks and mitigations mentioned by respondents

##### Benefits:

- Risk of not adopting in the long run could be significant (Academic: Massey University)
- Could better prepare businesses and the country to withstand future uncertainties (Academic: Massey University)
- Attract auditors to the profession (Software provider: Audit Assistant and User/Preparer: CATAS Limited)
- Improves quality and relevance of audit (User/Preparer: Te Omanga Hospice)
- Useful for training auditors (User/Preparer: Te Omanga Hospice)
- Enhance the confidence of users in the financial statements (User/Preparer: Te Omanga Hospice)
- Can have confidence that the IAASB has carried out the process of scaling the full suite of ISAs to develop a single standard for the audit of LCEs (OAG)
- The ISA (NZ) for LCE provides a sound base that will enable the auditors of LCEs to focus on the risks of material misstatement whilst removing compliance with requirements from the full ISAs (NZ) that are not applicable or relevant under the circumstances (OAG)
- The proposed ISA (NZ) for LCE to have minimal impact on public trust and confidence (Regulator: Charities Services)
- The ISA (NZ) for LCE is likely to be simpler to use for auditors due to the way it is structured and the length of the standard risk (Regulator: Charities Services)

##### Risks:

- Auditor resistance to adoption (User/Preparer: Te Omanga Hospice)
- Potential lack of consistency in both documenting determination and professional judgement of whether the entity is a LCE.
- Potential bias towards assessing a client as an LCE, to make the job easier (Auditor: Ashton Wheelans)
- The risk of transitioning in and out of the LCE standard based on the circumstances of the client is yet another layer of costs and complexity. For example, if estimates with high estimation uncertainty remain in the qualitative characteristics of complexity, the need to transition to full ISAs may arise quite frequently – particularly as facts and circumstances change. It may not be practical for engagement teams to 'switch over' to a full ISA audit mid-way through the engagement as that may require switching to another automated auditing tool where the full ISA methodology is housed. As relevant ISA requirements are virtually the same in the full suite of ISAs and the ISA for LCE, it is not a productive use of time to replicate or move documentation from a LCE automated tool to the 'full ISA' version (OAG)
- Some readers of Performance Reports where audits were undertaken under the ISA (NZ) for LCE standard may perceive the audit to be of a lesser quality, which may lead them to consider charities in the same reporting tier not comparable. However, we generally consider that an accepted audit standard will provide public assurance of effective use of charitable resources (Regulator: Charities Services)
- There is a concern for auditors both within New Zealand and abroad is the potential to discover during an audit that the ISA for LCE standard cannot be applied, and they must shift to the full standards. In such a situation, Charities Services is likely to receive enquiries and potential



requests for extensions from affected charities. We favour the establishment of clear, early guidance to auditors regarding the applicability of this standard. (Regulator: Charities Services)

Mitigations of potential risks mentioned above or in the consultation document:

- Most of the potential risks can be mitigated with education and guidance (Regulator: CAANZ/CPA Australia)
- Some auditors and entities may resist changing from the current standards due to familiarity and comfort. This could be mitigated by conducting awareness campaigns highlighting the benefits and providing comprehensive training and support to facilitate the transition (User/Preparer: Te Omanga Hospice)
- Costs could be mitigated by phased implementation plans and financial supporter subsidies for training to ease the transition (User/Preparer: Te Omanga Hospice)
- Perceptions of a reduction in audit quality could be mitigated emphasising that the ISA for LCE still maintains rigorous requirements for obtaining reasonable assurance and ensuring continuous monitoring and feedback mechanisms are in place (User/Preparer: Te Omanga Hospice)
- A comprehensive communication plan so all those affected by the changes have clarity (User/Preparer: Sport NZ)
- Perceptions can be overcome if the guidance is clear that the level of audit procedures and related documentation is unlikely to differ between the standards, and the messaging is clear that the main benefit of this standard is that it creates an abridged version which is easier to read for the practitioner, but doesn't mean less work is required (Auditor: PWC)
- Appropriate information and education by XRB in advance of the standard being introduced may mitigate the risk of perceptions of a shorter or lower cost audit (Regulator: Charities Services)

### Events:

At the virtual feedback forum for users and preparers:

- A preparer of financial statements noted that the standard would focus auditors on more relevant requirements for less complex entities and that the standard's tailored risk assessment process could be beneficial. They noted that audit availability is an issue for smaller entities. Another is the increasing cost of full audit especially to smaller charities. Donors or grantors (especially government) expect the higher standard of assurance from an audit rather than from a limited assurance engagement, but may not appreciate the impact of cost (both financial and in terms of volunteer time) from this higher level of assurance.

At the virtual feedback forum for auditors:

- An auditor queried whether any legislative changes are required to permit use of the ISA for LCE.
- An auditor noted that a lot of the time more time is spent filling out the paperwork than actually doing the testing, this standard could reduce paperwork.
- An auditor from an international network noted that the smaller practitioners will get real benefit from it because they've got the ability to modify and adjust and the cost benefit to the client will definitely be there. The larger firms, still have the same types of clients and could really benefit from it. But if they're mandated through their own internal structures and technology and methodology, may not get the benefits as they have to keep using the ISAs (NZ) rather than the ISA for LCE because there is no international methodology available.
- An auditor from a small practice said they are limited in what audits they can accept just because of their resources, they wouldn't even consider a more complex audit.
- Another auditor commented that there are already different tiers in audit, because of the registered (licenced) auditor regime.

## Staff conclusion

Our analysis is that there is no legislative change that is required to permit use of the ISA for LCE, no legislation has been noted in our search that requires compliance with ISAs (NZ) specifically. Rather legislation may require compliance with the XRB's assurance standards.

As has been picked up by respondents, there are areas where communication and guidance will be important, especially around:

- The fact that both ISAs and ISA for LCE require the auditor to obtain reasonable assurance. Adoption of the ISA for LCE does not necessarily mean less paperwork, lower costs or less time.
- Transitioning between the ISA for LCE and the ISAs.
- Authority of the standard (who is an LCE), and documentation requirements for determining whether an entity is an LCE.

We consider that the majority of submissions agree the benefits outweigh the costs and that the XRB should progress to adopt the ISA for LCE.

Based on the feedback, we recommend that the following additional benefits, costs/risks and mitigations are included in the basis for conclusions or signing memorandum documentation, in addition to what was documented in the XRB's consultation document:

### Benefits:

- Useful for training auditors.
- Attract auditors to the profession.
- Stakeholders can have confidence that the IAASB has carried out the process of scaling the full suite of ISAs to develop a single standard for the audit of LCEs.

### Risks:

- Potential lack of consistency in both documenting determination and professional judgement of whether the entity is a LCE.

### Mitigations:

- Communication is key: Education and guidance targeted at the risks. Awareness campaign upon introduction. Developing a comprehensive communication plan.

## 6. Reviewing the additional potential benefits and costs/risks provided by respondents, does the board agree with our analysis?

## Question 2

Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Why?

### Written Submissions:

#### Agree that the benefits outweigh costs/risks?

- 15/26: Yes (7 User/Preparer, 6 auditor, 2 other)
- 2/26: No (2 auditors)
- Remaining no comment or not applicable

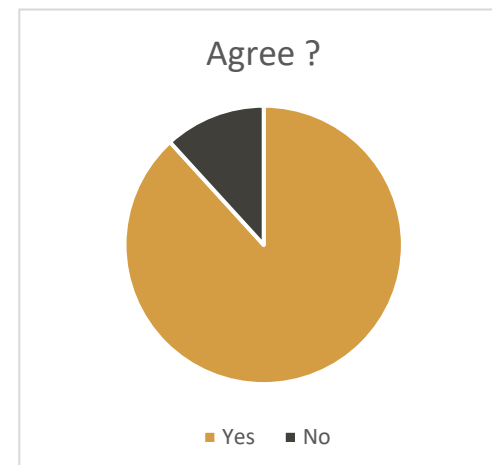
#### Why respondents made their stance

Those who agree wrote:

- This standard will provide a safeguard and help minimize accounting malpractices, regardless of the industry's challenging environment. The same applies to the public sector, where it can enhance accountability in the use of public funds, no matter how small the organization is. (Academic: Massey University)
- Our experience is that LCEs and their funders and other stakeholders are not overly familiar with the requirements of the ISAs and are likely to accept an ISA for LCE audit in much the same way as they accepted an audit undertaken using the ISAs.
- The attempted application of full ISAs to these audits tends to result in both higher costs and lower audit quality than is appropriate and useful to users and the economy overall. (Auditor: Baker Tilly Staples Rodway (BTSR))
- Audit standards have been increasing in complexity for many years. The level these standards are set at far exceeds the contexts LCEs operate in. The status quo is unsustainable. This proposal represents a practical and sensible solution to a pressing issue and it has our full support. This is greatly needed in the sector. (User/Preparer: CATAS Limited)
- Cost of compliance is becoming too great, particularly in the NFP sector and this will help alleviate that (Auditor: Ashton Wheelans)
- Given the nature of New Zealand's audit market, which has many less complex entities, the efficiencies delivered to practitioners who adopt the standard, should result in more effective audits for LCEs. These efficiencies and an increase in audit quality, outweigh the costs and address long term concerns about the scalability of the ISAs raised by practitioners. (Regulator: CAANZ/CPA Australia)
- It could be argued the current arrangement disadvantages both parties large and small. Is there enough rigour in an audit for the multi-national? Conversely is the small budget of a local school being burdened with unnecessary obligation. Auditor costs are born by the recipient of the audit. While we appreciate that the new standard will not necessarily be "a cheaper audit", we appreciate that a less complex audit may well lead to a softening of cost escalation over the medium term. We accept this is not a foregone conclusion. The introduction of new standards for LCE's also allows for the introduction of new audit providers who choose to subspecialise in such an environment (competition). (User/Preparer: Cranford Hospice)
- Having a single standard in New Zealand promotes a consistent high-quality audit of an LCE's financial report, i.e., each firm or auditor is not scaling the audit back by themselves (and potentially doing so inappropriately). We believe that a standard is needed to fill the gap that currently exists between entities that are required to be audited in accordance with the full suite of ISAs and those that may have a review instead. There is a large difference between reasonable and limited assurance and most entities that are able to have their financial reports reviewed obtain an audit (OAG)

Those who disagree wrote:

- Once this is in the market, firms and practitioners will need to manage perceptions of clients and audit professionals that this does not open the door for less audit procedures and a cheaper audit. If it's an ISA compliant audit, we should get to the same outcome under either set of standards thus creating the ongoing confusion as to why this new set of standards exists. (Auditor: PWC)



- Noting that this standard still requires reasonable assurance, we expect that we will still be performing a similar level of work and do not expect significant efficiencies. Adding in yet more customisation to our suite of templates, both increases costs, as well as the risk of incorrect templates being used. It also adds to the risks that staff may not be fully conversant with all the reporting and auditing requirements within NZ as it is nearly impossible as is for everyone to be conversant with everything. (Auditor: BDO)
- The current audit standards already are already scalable, and will become more so as technology continues to improve. (Auditor: Moore Markhams)

### Events:

A poll at the virtual feedback forum for users and preparers: 5/5 who voted, agreed that the costs outweighed the benefits.

At the virtual feedback forum for auditors: An auditor noted that we'd get better quality audits because there's 180 pages of 1 standard. And so "we would know it, we would own it, we would know it, we would be experts in it and would produce better quality audits for those entities that are chosen into that field". Another auditor agreed saying "The standard only requires you to look at what you need to look at and you just remain focused the whole way through. I mean that that leads to a better quality audit and I guess because [the way] it's written and the way that it flows through the whole audit process might make it easier as well."

A poll at the virtual feedback forum for auditors: 10/10 who voted, agreed that the costs outweighed the benefits.

At a drop-in session, support was expressed by an auditor for the standard and the benefits being greater than the costs.

### Staff conclusion

Based on staff analysis, we consider that the majority of submissions agree that the benefits outweigh the costs and that the XRB should progress to adopt the ISA for LCE.

## 7. Does the Board agree that benefits are greater than costs/risks?



### Question 3

**For Auditors we asked: Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale.**

**For users/preparers and others we asked: Should the XRB adopt the ISA (NZ) for LCE in New Zealand?**

#### Written Submissions: Use (auditors)

##### Will you or your firm use the ISA (NZ) for LCE?

Of the 13 auditors who submitted:

- 6/13: Yes
- 5/13: No
- 1/13: Depends on international methodology from network
- 1/13: Did not respond to this question, but was supportive of the standard.

##### When

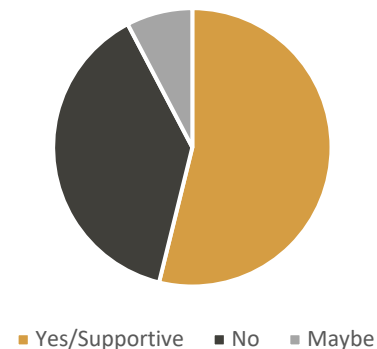
Those auditors who will use the standard wrote:

- Will adopt it as soon as able to (Auditor: Audit Plus Accounting Services Ltd)
- For all audits, where it is allowable and the client wants to (Auditor: Chrissy Murray)
- Smaller NFP clients (Auditor: Ashton Wheelans)
- The Auditor General wrote that will adopt it as soon as it is practical to do so. "We have made an initial assessment that the ISA (NZ) for LCE could be applied to a large number of the approximately 3,300 entities that the Auditor-General is required to audit annually. These entities are finding it difficult to afford an audit in accordance with the full ISAs (NZ) due to the increasing cost that the auditor has to incur due to complying with all the audit requirements of the full ISAs, and the current economic environment."

Those auditors who wouldn't use the standard wrote:

- The main reason is that our audit tool is based on full ISAs (not LCE) therefore it would not be practical to perform audits using standards that are not built into our tool. (anon.)
- To implement the LCE standard would necessitate additional local investment in tools, resources and training, which we do not believe would provide sufficient proportionate benefits. Additionally, requirements to revert to the full ISAs in certain circumstances, including those set out in par 6.5.1 of the standard, introduces complexity and uncertainty in the application of the LCE standard. Given the above, should the LCE standard be adopted in New Zealand, we ask that its application remains voluntary, ensuring that firms wishing to continue applying the full suite of the ISAs scaled for less complex engagements, can do so (Deloitte)
- We already have scalable guidance and workpaper technology that supports the existing ISAs. Given this effectively requires the same level of work, adoption would create confusion amongst our practitioners. It will also create additional work as guidance manuals, templates and other firm resources will effectively need to be doubled which will lead to increased maintenance costs (PWC)
- While we don't support the new Standard, we acknowledge that there is likely to be some application of this across our firms in NZ. Smaller, regional firms would possibly utilise this should NZ receive international support. We cannot definitively state at this point whether we will use this Standard or not. There is also the risk that the international network does not fully embrace this Standard, and therefore the associated software and technical support to NZ will not be forthcoming. It is compulsory that we use the existing auditing software provided by our international network (BDO)

Use of ISA (NZ) for LCE



Other points:

The Auditor General wrote if the XRB decided not to adopt the standard and the Auditor-General developed a standard based on the ISA for LCE, it could significantly affect the pool of auditors that the Auditor-General could use to carry out such audits on their behalf.

## Written Submissions: Support (from users/preparers and others)

### Should the XRB adopt the ISA for LCE in New Zealand?

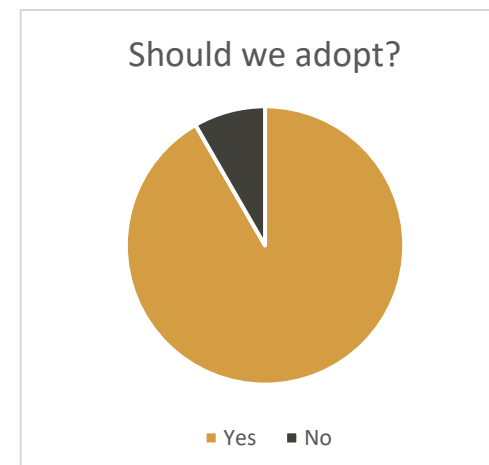
For non-auditors:

- 11/13: Yes (9 User/Preparer, 2 other)
- 1/13: No (1 other)
- 1/13: (User/Preparer) provided no comment.

### Why?

Those in support wrote:

- The ISA for LCE is a fit for purpose standard for the majority of audit work in NZ, which should allow auditors to provide more focussed, more efficient work for smaller, less complex entities. (Audit Assistant)
- Adopting the ISA for LCE in New Zealand for not-for-profits would offer several benefits and be a positive step for not-for-profit. (Te Omanga Hospice)
- There are many of these audits required in the for-purpose space, especially of charities, and the ability to utilise the benefits of the LCE standard should in my view allow more cost effective audit option and hopefully assist in the sustainability of the audit profession to service this important but smaller and simpler end of the audit market in NZ. I was initially surprised by Australia and Canada not seeking to adopt at this stage. However, I don't see that as a reason to inhibit NZ. Those jurisdictions have quite different populations of entities to be audited with NZ arguably having a greater proportion of LCEs required by legislation to be audited. (Craig Fisher)
- This will reduce compliance costs for schools while also still providing reasonable level of assurance. (Ministry of Education)
- The majority of our sector partners are governed by voluntary boards with constrained capacity and at times capability. On their behalf we support any change in legislative and related compliance that reduces complexity and frees up time, while ensuring boards continue to operate legally, ethically, and can demonstrate accountability to their range of stakeholders. (Sport NZ).



The respondent (anon.) who wrote no, made a general comment that it should not be adopted for charities, but did not provide reasons why.

## Events:

At the virtual feedback forum for users and preparers: 4/4 who voted expressed support for adoption.

At the virtual feedback forum for auditors: 8/8 auditors who voted stated that they would use it in their practice. An attendee that was not an auditor (academic) supported its adoption as well.

Positive comments received at the 2025 Audit assistant conference, the software provider would look at developing template for auditors to use, if this happens, auditors spoken to said that they would use the standard, and noted the panel event's conclusion to let's give it a go.

The virtual Panel discussion event also provided positive comments. Items discussed, included:

- Always understood that the ISAs are scalable, But it requires significant resourcing to scale back the ISAs. If not adopted by XRB, the OAG will probably adopt it anyway.

- What does it look like in practice – key question. Need a strong principles based standard, which it is. Possible education piece needed upon adoption. Easier to train staff. School audits could be used to try this out.
- Mitigating Risks: The panellists discussed ways to mitigate risks associated with adopting the new standard, such as piloting it in specific sectors and ensuring proper training and support.
- More NZ entities require audit than Australia. What is happening in Canada/Australia is irrelevant. Need to look at our own space.
- It's nonsense that this is a lower quality audit as they are derived from the auditing standards. It pares away requirements that have no relevance to less complex entities.
- A lot of concerns are theoretical not practical.
- "Let's give it a go" were the concluding comments.

### Staff conclusion

Support for this standard comes from the small-medium sized audit practices in New Zealand, both in regional areas and in the main centres. Their client base would mainly be LCE's, for which this standard is written. Those that use an audit software with the company who provided us with feedback would have a template readily available, as the software provider is supportive of the ISA for LCE. Although noting benefits and risks, those users who are regulators (including government agencies and the membership bodies for auditors) who responded appear supportive.

Based on staff analysis, we consider that there are a sufficient number of respondents who would use the standard, and stakeholders who support its adoption and therefore the XRB should progress to adopt the ISA for LCE.

### 8. Does the board agree that the XRB should progress to adopt the ISA for LCE?

## Question 4

### Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why?

#### Written Submissions:

- 13/26: No (6 auditor, 6 User/Preparer, 1 other)
- 2/26: Yes (2 auditors)
- Remaining no comment or not applicable

#### Why

Comments from those that wrote no included:

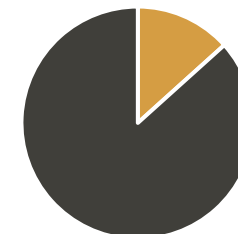
- As long as the fundamental principles are still consistent don't see how a 2 tier set of standards is an issues. We don't struggle with multi-tier accounting/PBE standards so don't see why audit standards would have any issue with a tiered approach. (Auditor: Ashton Wheelans)
- I am struggling to think of any that have resulted in fundamental changes to the core principles of performing a good independent audit. As such I don't think that delays in maintenance of a couple of years would prove fatal to audit quality which is the key point here.
- Auditor: The thought of a three year period of stability also has strong appeal. (Craig Fisher)
- The model of periodic updates of the standard is the same as IFRS for SMEs which seems to work well in jurisdictions that adopt that standard. Given that, in general, there are fewer changes to auditing standards than there are to the accounting standards, we do not think this should cause problems. A limited moratorium meaning audit standards are being updated periodically rather than continuously is likely to make dealing with change more practical for firms working primarily with LCEs, without losing the overall strengthening of standards over time. (Regulator: CAANZ/CPA Australia)
- The timing of the maintenance of the ISA for LCE does not affect our view on its adoption. From our observations, the international standard setting board is primarily focussing its attention on marginal amendments to the ISAs which are of importance to audits of FMC reporting entities with higher levels of public accountability. If those amendments are reflected in the ISA for LCE at a later date the quality of the audit is unlikely to be compromised. (OAG)
- We agree that there needs to be stability in the short term over the maintenance of the ISA for LCE. (Auditor: BDO)

Those that said the timing of the maintenance does affect their views, wrote:

- The potential time lag between amendments made to the ISAs and corresponding amendments being made to the ISA for LCE standard is concerning. As, not only will it result in inconsistencies between audits undertaken using the ISAs and those undertaken using the ISA for LCE standard, it may also mean that, for a period of time, the requirements relating to ISA for LCE audits are more stringent than those for audits of all other entities. (Auditor: BTSR)
- We believe the fact that requirements in the main ISAs will be adopted into the LCE standards with a delay reinforces the view that this creates two tiers of audits. (Auditor: PWC)

Charities services commented: We are "aware of concerns regarding the alignment of updates to the current audit standards and the ISA (NZ) for LCE. We understand there could be misalignment between the new standard and the general audit standards. Without understanding the depth of the updates to the audit standards, it is difficult to estimate the risk in this misalignment. We encourage efforts by the XRB to minimise any associated risk."

Does maintenance  
affect your view?



■ Yes ■ No

**Events:**

A poll at the virtual feedback forum for auditors found 5/8 voted no, 3/8 voted yes.

Discussion at the virtual feedback forum for auditors:

- An academic noted “If there was a change to auditing standard and say it's something around technology and that's rapidly developing and then it takes a year for a change to trickle into the LC standard. Does that mean that quality of audits is different? And then do the users of such LCE audits deserve a lower quality? That was my thinking about it. So we have an order, I guess an audit is an order that can be scaled up and down, but I'm just concerned around the quality if we have these different standards and timings.”
- Although a User/Preparer disagreed “I don't think we're necessarily be a huge problem if those changes are delayed year or so for the less complex entities.”
- An auditor said “It's just a little tricky. I mean, nothing that can't be whipped around with processes and systems and things. But yeah, I'm someone who supports the whole thing, but this would probably just be my 1 little bugbear about it.”
- Another auditor said “I would have hoped that we're all professional enough. If we saw something like going concern come through, although it's not part of the ISAs, we would go to that great level. We are all, after all, professionals.”

**Staff conclusion**

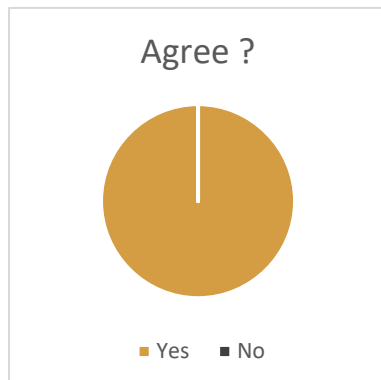
Based on staff analysis, the majority of respondents appear to be unconcerned with the maintenance and period of stability. But we acknowledge there is some who are concerned. Communication and guidance will be important for applicability of future changes to the ISA (NZ) for LCE once the period of stability is concluded.

Staff do not recommend that the XRB should update the standard in New Zealand ahead of updates by the IAASB. We note that the IAASB is expected to commence this work during 2025. Greg Schollum has been asked to be the project board member for this work.

**9. The Board is asked to note the feedback.**

**Question 5**

**Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?**

**Written Submissions:**

- 16/26: Yes (7 auditors, 7 User/Preparer, 2 other)
- Remaining no comment or not applicable

**Why**

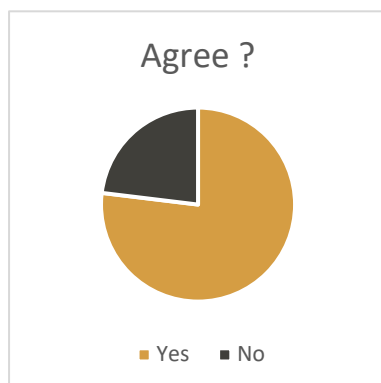
- We believe this is appropriate as this is the term used in New Zealand auditing standards rather than 'listed entity' and these entities are public interest entities (PIEs) (Regulator: CAANZ/CPA Australia)
- The draft LCE standard in its current form does not include the incremental requirements for FMC entities with higher public accountability, such as key audit matter requirements, therefore they are not fit for purpose in their current state for FMC entities with higher public accountability (Auditor: PWC)
- It is only natural that these entities are audited under the full set of ISA's due to their level of public accountability (Auditor: BDO)

**Events:**

At the virtual feedback forum for auditors, a poll found 8/9 voted yes, 1/9 voted no. Staff have contacted the FMA to reconfirm that they agree with this specific prohibition.

**Question 6**

**Do you agree that we do not specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?**

**Written Submissions:**

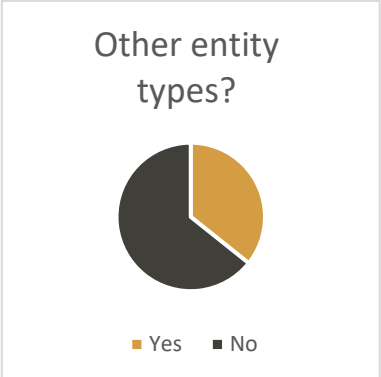
- 10/26: Yes (5 auditors, 5 User/Preparer)
- 3/26: No (2 auditors, 1 other (academic))
- Remaining no comment or not applicable

**Why**

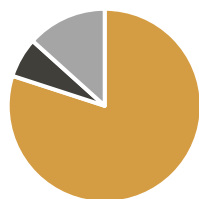
Responses from those that wrote yes, include:

- However, one of the key focus areas on introduction of this standard will be guidance and training for auditors around assessing if the LCE standard can be applied (Craig Fisher)
- Other than the clarification necessary for FMC reporting entities with higher levels of public accountability, we do not believe that the XRB should establish any further limitations on the application of the standard other than those set out in the standard as this would introduce an unnecessary level of complexity. The scope of the standard as established by the IAASB is sufficient to prevent its use for audits of complex entities. Similar to all other entities, auditors should exercise professional judgment when deciding whether to use ISA (NZ) for LCE in their audits of FMC reporting entities with lower levels of public accountability. If certain entities within this category exhibit complexities due to their business nature, it is incumbent upon the auditor to apply their professional judgment regarding the appropriateness of using ISA (NZ) for LCE. We have also received positive feedback indicating that, in situations of uncertainty, auditors should refrain from using ISA (NZ) for LCEs. This approach helps maintain the integrity and effectiveness of the auditing process while ensuring that appropriate standards are upheld (Regulator: CAANZ/CPA Australia)

Those who wrote no, responded:

	<ul style="list-style-type: none"> <li>- This could potentially increase confusion and widen the expectation gap regarding the applicability of the standard. (Academic: Massey University)</li> <li>- I think there is the perception (user) that FMC entities are inherently high risk. (Auditor: Ashton Wheelans)</li> </ul> <p><b>Events:</b></p> <p>No feedback received at the virtual events. Staff have contacted the FMA to reconfirm that they agree with this proposal.</p>
<p><b>Question 7</b></p> <p><b>Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?</b></p>  <p>Other entity types?</p> <p>■ Yes ■ No</p>	<p><b>Written Submissions:</b></p> <ul style="list-style-type: none"> <li>- 5/26: Yes (2 auditors, 2 User/Preparer, 1 other)</li> <li>- 9/26: No (5 User/Preparer, 3 other, 1 auditor)</li> <li>- Remaining no comment or not applicable</li> </ul> <p><b>Further responses</b></p> <p>Most said that the proposed standard is sufficiently clear on this aspect, or that it is appropriate to allow audit partners and firms to use their professional judgement to determine whether an entity meets the criteria for adopting the ISA (NZ) for LCE.</p> <p>Other entity types included the following:</p> <ul style="list-style-type: none"> <li>- Organisations that have an affiliation with an international body, e.g. religious organisations. (User/Preparer: AG Accounting)</li> <li>- all Tier 1 entities and now that the threshold for Tier 2 has moved, possibly all Tier 2 work excluded as well. (Software provider: Audit Assistant)</li> <li>- Where a small (5?) % of the shareholders vote to require a ISA-compliant audit. (Auditor: Chrissy Murray)</li> <li>- Organisations that have significant trade in harmful goods such as alcohol, tobacco or use significant levels of slave labour (this may depend on Modern Slavery Act being passed in parliament). (User/Preparer: Ministry of Education)</li> </ul> <p>Staff have considered these and consider that no further change is needed to what was drafted.</p> <p>The Auditor-General will develop their own policy on audits where this standard may not be applied.</p> <p><b>Events:</b></p> <p>No feedback noted at the virtual events.</p>
<p><b>Question 8</b></p> <p><b>Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? If not, what thresholds would you suggest and why?</b></p>	<p><b>Written Submissions:</b></p> <ul style="list-style-type: none"> <li>- 12/26 :Yes (6 auditor, 5 User/Preparer, 1 other)</li> <li>- 1/26: No (1 User/Preparer)</li> <li>- 2/26: Maybe (1 auditor, 1 user)</li> <li>- Remaining no comment or not applicable</li> </ul> <p>Those respondents answering yes, overall agreed that a quantitative threshold is not necessary, as the value of transactions is not a clear indicator of operational complexity.</p>

## Agree ?



■ Yes ■ No ■ Maybe

The respondent who answered no said that all tier 1 entities should be excluded. (User/Preparer: CATAS Limited).

The respondents who answered maybe, noted that:

- It would be beneficial to align with the audit requirements in the Incorporated societies act or Charities Act (User/Preparer: Sport NZ)
- A size of audit firm as a threshold, for example audit firms with less than 30 staff use the standard (Auditor: PWC)

### Events:

At the virtual feedback forum for auditors, a poll was held where 7/9 voted yes, 2/9 voted no. No further feedback was received.

### Staff conclusion

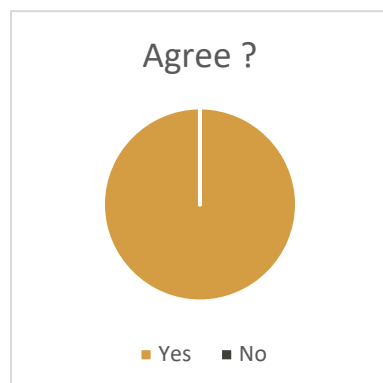
We conclude that there are no further entity types to prohibit or additional quantitative thresholds to include. We have previously discussed prohibiting by tiers, and agreed that we wouldn't do this (particularly as that wouldn't capture large special purpose financial statement audits). We recommend to specifically prohibit FMC HLPAs and that no further changes are required to the authority of the ISA (NZ) for LCE.

**10. The Board is asked to agree that the applicability of the standard in NZ should be finalised as proposed, i.e., to prohibit FMC HLPAs in NZ, however no blanket prohibition for additional quantitative thresholds?**



**Question 9**

**Do you support the addition of Part 11 in the ISA (NZ) for LCE to enable the audit of SPI?**

**Written Submissions:**

- 19/26: Yes (9 auditor, 8 User/Preparer, 2 other)
- Remaining no comment or not applicable

One respondent, noted, considering the LCE Standard incorporates all the other ISA's, it would not make sense to then have to refer to the NZ AS 1 (Revised). (Auditor: BDO).

**Events:**

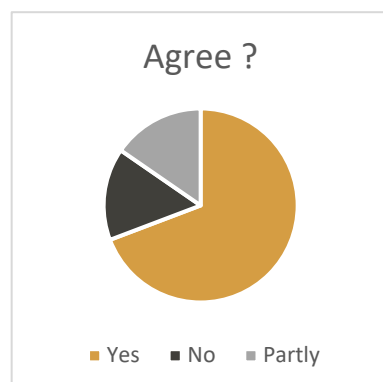
At the virtual feedback forum, an auditor noted "a personal view is I really liked part 11. I thought it was very well written and appropriate for smaller less complex entities."

A poll found 6/7 supported part 11, while 1 didn't. No further feedback was received.

At a drop-in session, support was expressed by an auditor for the addition of Part 11.

**Question 10**

**Are the requirements in Part 11 appropriately tailored for LCEs? Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?**

**Written Submissions:**

- 9/26: Yes (5 user/prepare, 3 auditor, 1 other)
- 2/26: No (2 auditor)
- 2/26: Partly (1 auditor, 1 User/Preparer)
- Remaining no comment or not applicable

Two who partly agreed noted the challenging aspects of SPI. (User/Preparer: Cranford Hospice and Auditor: BDO)

One respondent who wrote yes (Regulator: CAANZ/CPA Australia), and One who wrote no (OAG) provided suggestions on further editing Part 11 – this is considered in a separate paper.

Other comments from the respondents that said yes:

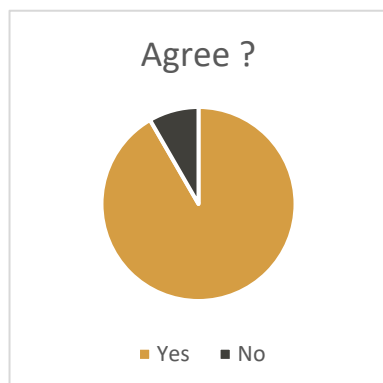
- I thought it was well written and succinct. Well done. (Craig Fisher)
- They appear to have been well thought through. (User/Preparer: Sport NZ)

**Events:**

No feedback noted at the virtual events.

**Question 11**

**Do you agree that the EEM included in Part 11 is appropriate? If not, what do you recommend?**

**Written Submissions:**

- 11/26: Yes (5 auditor, 5 User/Preparer, 1 other)
- 1/26: No (1 auditor)
- Remaining no comment or not applicable

One who said no (OAG) provided further suggestions on editing Part 11 – see separate paper.

**Events:**

No feedback noted at the virtual events.

**Question 12**

**What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?**

**Written Submissions:**

Few comments were received, they included:

- While we acknowledge the broader issues in auditing SPI, we do not consider these issues will be exacerbated as a result of ISA (NZ) for LCE. (Auditor: BTSR)
- Consistency of judgement is always more difficult with SPI than with financial information, but this is not unique to the LCE standard. (Auditor: Chrissy Murray)
- On-going engagement with sector reporters by professional bodies will help to provide guidance in this area. Not all reporting entities have access to systems suitable for data capture. Training to Governance Groups will also help their understanding on what is required. (Auditor: Audit Plus Accounting Services Limited)
- The main challenge for auditors in auditing SPI is being too hung up on numeric measures and traditional accounting style recording systems. (Craig Fisher)
- While the guidelines are comprehensive, there does not appear to be any significant difference in simplifying the audit process for the SPI between the two [standards – NZ AS 1R and ISA for LCE] (User/Preparer: Cranford Hospice)

**Events:**

No feedback noted at the virtual events.

**Question 13**

**Do you have any comments on the proposed New Zealand specific amendments or the Conforming amendments arising from the ISA (NZ) for LCE?**

**Written Submissions:**

A couple of further suggestions have been made by auditors – see the separate paper.

**Events:**

No feedback noted at the virtual events.

**Staff conclusion**

Based on staff analysis, we consider that the majority of submissions agree with the inclusion of Part 11 to enable the audit of service performance information.

We have also shared the feedback with the SPI project team, as part of their considerations over guidance and consultation document.

Overall support for the EEM and requirements in Part 11, and the NZ specific amendments and conforming amendments is noted. We note the suggested changes and have analysed in the separate paper.

**11. The Board is asked to note the feedback. Taking into account the separate paper, Does the Board agree to include and enhance Part 11, dealing with service performance information, based on the feedback received?**

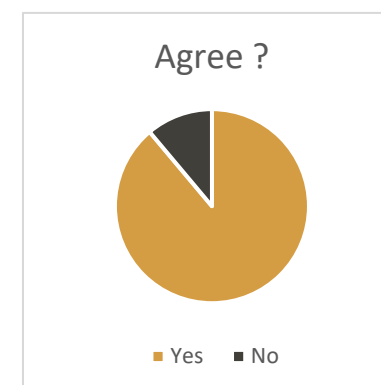
**Question 14**

**Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?**

**Written Submissions:**

- 13/26: Yes (7 User/Preparer, 4 auditor, 2 other)
- 3/26: No (2 auditor, 1 User/Preparer)
- Remaining no comment, not applicable, or indifferent

Two (Ashton Wheelans Ltd and Craig Fisher) wrote No, and want the application date to be sooner. The other (Auditor: BDO) who wrote No, wants the application date to be later to give time to train audit teams.

**Events:**

Comment was received in a drop-in session that the application date was too early - software used is from international providers, and they need time to develop methodology.

**Staff conclusion**

Based on staff analysis, we conclude that there is overall support for the application date.

**12. The Board is asked to note the feedback.**

## Question 15

Do you have any other comments on the proposed standard?

### Written Submissions:

Other comments received include:

- We do support NZ providing further guidance related to the audits of statement of service performance. (anon.)
- We really appreciate the work undertaken by the XRB in understanding whether the ISA (NZ) for LCE standard should be adopted for use in New Zealand. (Auditor: BTSR)
- Concern over not being able to use type 1 or type 2 reports as audit evidence over controls at the service organisation. (Audit Assistant)
- I have viewed the XRB panel discussion 17 February 2025, and the consensus seemed to be. LET'S GIVE THIS A GO. I AGREE 100%. (Auditor: Smith and Jack Ltd)
- New Zealand, I understand is somewhat unique with our proliferation of registered charities and incorporated societies. I feel we should adopt LCE audit standards that fit our situation and not have standards dictated by International Accounting firms who may have very limited understanding of our situation or no desire to tailor standards for our situation. The fact other countries are not adopting LCE standards should not deter us from having standards that fit the NZ situation. We did introduce tiered financial statement standards for statements preparation and feel the same can be introduced for audit standards. The argument an ISA for LCE audit may be seen as a lesser audit is unlikely. I have never heard anyone complain that Tier 3 financial statements are a lesser product to Tier2. (Auditor: Smith and Jack Ltd)
- The board should consider whether it would be appropriate to track the update and usage of the standard after the first few years of implementation. This will allow both understanding of how the standard is used in New Zealand but also inform any responses the board may wish to make to the IAASB as they update, or do post-implementation reviews, of the standard. (CAANZ/CPA Australia)

### Events:

No feedback noted at the virtual events.

### Staff conclusion

Staff note concern over not being able to use type 1 or type 2 reports as audit evidence, however if they are needed the auditor would use the full ISAs (NZ) – this is stated in the EEM at A.2. of the authority. We asked auditors about this matter in our virtual feedback forum, and the majority did not see this as an issue. The standard enables alternative procedures to be undertaken when a service organisation is used (refer para. 6.3.11., 6.3.12., 7.4.28. 11.19.1.), those procedures are tailored for an audit of a LCE.

Staff note suggestions of tracking the usage of the standard, and undertaking a post implementation review.

### 13.The Board is asked to note the feedback.

## ISA (NZ) for LCE: Analysis of drafting suggestions

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1. This paper considers suggestions and analysis on changes to the drafting of the standards that we received from respondents.
2. The following is a summary of areas staff recommend that we should consider further:

For Part 11 *The Audit of Service Performance Information (SPI)*:

- The EEM (or, Essential Explanatory Material) at the objective to simplify or reduce suggested confusion or better align with two-tier process.
- The presentation and ordering of EEM and requirements regarding risks at the assertion level.
- Clarify the EEM regarding audit evidence and attribution.
- The term “extremely rare circumstances” when an auditor concludes in a compliance framework engagement, in extremely rare circumstances, that the SPI is misleading. However, this term is also used elsewhere in the standard.

For the rest of the ISA (NZ) for LCE:

- A requirement for obtaining a legal letter from in-house counsel, to be consistent with the NZ paragraph of ISA (NZ) 501.

3. Other areas that respondents have provided further drafting suggestions, which staff do not recommend making include:

For Part 11 *The Audit of Service Performance Information (SPI)*:

- Amending terminology in Part 11 to further simplify it. Auditors may be familiar with terminology in NZ AS 1 (Revised) and NZ SRE 1. We do not recommend introducing new terminology that differs from the other standards.
- Adding a flow chart diagram to provide a road map of the two-step process. This however could be in future guidance, staff have started drafting a diagram based on that in NZ AS 1 (Revised) to illustrate the audit of SPI in Part 11.
- Requiring a specific representation that those charged with governance (TCWG) have a responsibility for internal controls over the preparation of SPI that is free from material misstatement. This responsibility is included in the engagement letter. The illustrative representation letter then requires a representation that TCWG have fulfilled their responsibilities as set out in the engagement letter.
- Removing the reference to SPI being prepared “in accordance with the entity’s measurement bases or evaluation methods” in the audit opinion, engagement letter and representation letter. Amending this requirement would result in Part 11 being inconsistent with the requirements of NZ AS 1 (Revised) and NZ SRE 1, and would remove requirements that exist for all assurance engagements.
- Amending the requirement to evaluate whether “The measurement bases or evaluation methods are available to intended users”. Amending this requirement would result in Part 11 being inconsistent with the requirements of NZ AS 1 (Revised) and NZ SRE 1.
- The location of communicating “Any significant risks identified with the service performance information”. The layout of the ISA for LCE, puts specific communication requirements towards the end of that Part. There will be guidance needed on how the standard is structured.

For the rest of the ISA (NZ) for LCE:

- To amend ISA (NZ) 510 to clarify that use by the prior auditor of the ISA (NZ) for LCE standard does not in itself affect the value of the auditor's work in relation to the audit of opening balances. Amend ISA (NZ) 710 to clarify that no disclosure should be made if the previous year audit was under the ISA (NZ) for LCE standard. These two issues could be addressed through guidance.
- To add a Part B, as there is only reference to Part A. "A" in the ISA for LCE refers to the Authority of the standard. We do not consider that making such a change is necessary and doing so may complicate drafting and cross referencing.
- Moving the paragraph that explains the structure of the ISA (NZ) for LCE. We do not consider this necessary as its placement is aligned with the international standard. Furthermore, the structure is also shown in the contents page at the front of the standard.
- Removing reference to PES 4. This would be inconsistent with the international standard which refers to ISQM 2. There may be audits of LCEs that use engagement quality reviewers. We do not recommend removing this reference as this would result in a lesser standard.
- Changing the drafting of the requirement around there being a presumed risk of fraud in revenue recognition. We do not recommend deviating from the international standard.
- The placement of when the auditor reconsiders whether the use of ISA for LCE should be before the risk assessment process. We do not recommend deviating from the international standard. Staff consider the placement to be appropriate.
- The location of communicating "the significant risks identified by the auditor". The layout of the ISA for LCE, puts specific communication requirements towards the end of that Part. There will be guidance needed on how the standard is structured.
- Whether reference to an interim audit is relevant. Staff experience is that schools, and some larger LCE charity audits may have interim audits, therefore we consider this paragraph to be relevant.
- Whether the EEM reference to reliance on representations made by TCWG in written public statements is needed. Although this scenario may be rare in LCE audits, staff consider that the alignment between the ISA for LCE and ISA (NZ) 580 should be maintained.
- Whether the communications required in Part 8 are flexible when communicating with management, TCWG or both. Staff consider that the ISA for LCE is sufficient to enable some flexibility, particularly paragraphs NZP.7.1. and 1.8.5. allow auditors professional judgement to apply when deciding whether to communicate with management or TCWG.
- Whether the audit report format and structure aligns with ISA (NZ) 700 (Revised). Staff consider that it does.
- Whether the audit report should state that the ISA for LCE provides the same level of assurance as the ISAs. The audit report has been considered by the IAASB and this board. Both frameworks state that the auditor's objective is to obtain reasonable assurance. Readers may be confused if we are referencing ISAs in the ISA for LCE audit report.
- Whether the illustrative audit report in ISA for LCE needs reference to Other information. Staff consider that the illustrative audit report should not refer to Other information. Including a paragraph on other information in the illustrative audit report could lead to unintended consequences where audit reports may mention other information when there isn't any.

#### 4. **The Board is asked whether they agree with staff recommendations**

5. The following are our detailed responses to suggested changes. Staff recommendations are shown in **bold**. Those areas that staff recommend to consider further following this meeting are shaded.

Reference to ED	Respondent's Observation	Respondent's suggested actions	Staff response
<b>Question 10 – Suggested changes</b>			
<b>The following suggestions are from CAANZ/CPA Australia:</b> 11.3.1 Paragraph 11.3.1. of the ISA (NZ) for LCE is extracted from paragraph 20 of NZ AS 1 (Revised).	Planning should recognise that planning the SPI audit concurrently may not always be practicable as the SPI may not be available at the initial stage of the audit.	Implement the suggestions under the "Observation" column.	The auditor sets the scope, timing and direction of the audit. It is possible that the timing of planning the audit of SPI is delayed because the client is still writing the SPI. We do not believe that the wording of the standard prevents planning over SPI to be done later, after all planning is a "continuous and iterative process" per the Scope of Part 5, Planning. <b>Staff do not recommend changing this paragraph.</b>
11.3.2 Paragraph 11.3.2. of the ISA (NZ) for LCE is extracted from paragraph 22 of NZ AS 1 (Revised).	Formal discussion with TCWG [those charged with governance] at the planning stage should not be mandatory as it may increase costs for the entities.	Alternatives such as discussion with management supplemented by written communications to TCWG should be permitted.	Staff consider that a discussion can include written communication or verbal. Discussions with TCWG at the planning stage can help with step 1 in determining whether the SPI is appropriate and meaningful. <b>Staff do not recommend changing this paragraph.</b>
<b>The following suggestions are from the OAG:</b> The wording of (a) in the EEM following 11.1.1 on page 119	We consider that some of the terminology that has been carried across from NZ AS 1 (Revised) is confusing and should be simplified. The wording of (a) in the EEM following 11.1.1. is confusing because it does not align with the plain English wording in the applicable accounting standard. We think it should do so.	We recommend that the wording of (a) in the EEM following 11.1.1 is reworded to align to the requirements in paragraphs A43 and A44 of the Tier 3 (NFP) Standard - Reporting Requirements for Tier 3 Not-for-Profit Entities (Issued May 2023). Suggested wording is: <i>"The auditor may achieve the objectives of this Part by considering the following two steps:</i> (a) <i>Assess whether the following aspects of the service performance information are appropriate and meaningful in accordance with the applicable financial reporting framework:</i> <ul style="list-style-type: none"> <li><i>Describe what the entity is seeking to achieve over the medium to long term (that should be closely related to the entity's mission or purpose); and</i></li> <li><i>Describe, and quantify to the extent practicable, the significant activities the entity has undertaken or what it has achieved during the financial year."</i> </li></ul>	Staff note the suggestion, however, it is possible that the ISA (NZ) for LCE would be used in audits of Tier 2 entities, like schools, who use FRS 48. Therefore, we do not believe that we should just align Part 11 with the Tier 3 standard.  However, given the feedback, we should take time to further consider if this EEM could be considered confusing. <b>Staff will further consider the drafting of the EEM below the objective.</b>
Throughout Part 11 (including the Independent	We consider the simplified terminology (referred to above) should be reflected throughout Part 11. These	Refer to our recommendation under the "Observation" column.	This is noted, but drafting was aligned with terminology in NZ AS 1 (Revised) (and to

Reference to ED	Respondent's Observation	Respondent's suggested actions	Staff response
Auditor's Report), the Engagement Letter in [NZ] APPENDIX 2A, and the Representation Letter in [NZ] APPENDIX 7A.	changes are needed to facilitate more cost effective audits of service performance information prepared by less complex entities.		some extent NZ SRE 1) so not to confuse auditors when moving between the different standards. <b>Staff do not recommend changing the terminology.</b>
11.7.2	Paragraph 11.7.2.(b)(i) and the last paragraph under "Assertion Level Risks" in the explanatory material appear to be confusing two matters - assertions and identifying significant (material) measures. We identify material measures first, then consider inherent risk at the assertion level for those measures. In other words, if we think about the "two-step" process in the explanatory material following 11.1.1, we would only consider inherent risk for the "aspects" of service performance that are assessed as being "appropriate and meaningful". This assessment is carried out under 11.6.1 (a).	We suggest that the sequencing of the procedures in relation to identifying and assessing the risks of material misstatement are clarified. This process equates with (b) in the explanatory material following 11.1.1 – being step 2 of the "two step" process.	This requirement has been drafted following paragraph 6.4.1. of the standard. <b>Staff will consider this further</b> , perhaps para 11.7.2.(b) could read "determine the significant performance measures, descriptions or disclosures and relevant assertions related to each", rather than "Determine the relevant assertions and related significant performance measures, descriptions or disclosures;"
The EEM following 11.7.2	The last sentence in the explanatory material for 11.7.2 notes that <i>"the [inherent] risk assessment is conducted at a meaningful level ..."</i> .	We were not sure what the phrase "meaningful level" means. Could this be explained or rephrased in another way.	This is from para. A62. of NZ AS 1 (Revised). <b>Staff will consider this terminology further.</b>
11.9.1	Sufficient and appropriate audit evidence is typically obtained to support the entity's assertions of its actual performance during the reporting period. In other words it relates to step 2 of the "two step" process. The auditor's work to assess whether the entity reports on the "aspects" of service performance that are "appropriate and meaningful" does not typically employ the evidential processes that are used to validate an assertion. Instead, as stated in 11.6.1 (a), the information used by the auditor to make this assessment is derived from their understanding of the entity under 11.4. This is step 1 of the "two step" process.	We recommend that 11.9.1 clarifies the application of the "two step" process in the context of eventual procedures. One way of doing this may be to develop a flow diagram that provides a road map in the application of the "two step" process.	Staff have prepared a flow chart, similar to the chart in NZ AS 1 (Revised) which could be issued as future <b>guidance</b> . This may be considered in future.
The EEM following 11.9.1	Much of the explanatory comment derives from ISA (NZ) 500. It is difficult to form a view on whether the proposed standard has captured the important evidential issues that an auditor is likely to encounter when auditing a less complex entity. In our opinion, the segregation of duties risk will be an important consideration as will the ability of the auditor to rely on systems of internal control.	We recommend that the proposed standard provides guidance on the important evidential issues that an auditor is likely to encounter when auditing a less complex entity.	<b>Guidance</b> could be considered regarding evidence, and is being considered as part of the wider SPI project. Consideration of Segregation of duties is included in the ISA (NZ) for LCE as part of Fraud and risk considerations and understanding the control environment.
The EEM following 11.9.1	The 4 <sup>th</sup> paragraph of the EEM following 11.9.1 is not clear. In particular we had difficulty in understanding how the second sentence relates to the first sentence.	We suggest this paragraph is clarified.	This EEM was added for cases when the SPI is based on information outside the entity's direct control or traditional reporting boundary. <b>Staff will consider this EEM further.</b>
The EEM following 11.9.1	The 5 <sup>th</sup> paragraph of the EEM following 11.9.1 (on pages 128 and 129) discusses the difficult assertion of "attribution". In some instances a number of separate entities contribute to an outcome but find it difficult to	It is suggested that it may not be possible for the entity to quantify the extent to which its activities contribute to an outcome. In this situation the auditor will	Further guidance could be considered regarding attribution and audit evidence in future.



Reference to ED	Respondent's Observation	Respondent's suggested actions	Staff response
	<p>quantify their individual contribution towards the outcome.</p> <p>In this situation auditors' responsibilities are likely to be limited to:</p> <ol style="list-style-type: none"> <li>1. Ensuring there is a connection between the reported measure and the entity's activity during the reporting period; and</li> <li>2. Assessing the adequacy of the entity's disclosures in that they fairly reflect the extent of the entity's contribution towards an outcome.</li> </ol> <p>This involves the exercise of professional judgement by the auditor.</p>	<p>need to exercise professional judgement on the reliability of the disclosures made by the entity in the context of the "attribution" assertion.</p> <p>Currently the "attribution" assertion is presented as a "black and white" situation in the EEM. We would suggest that the verification of the "attribution" assertion is more nuanced in some situations and that the EEM should reflect this possibility.</p> <p>We also consider this paragraph should explain the relationship between the attribution assertion and the associated evidential processes.</p>	<p>Noting the points on the EEM, <b>Staff will consider this EEM further.</b></p>
11.11.1	<p>The representation letter should also obtain a representation that the reported service performance information fairly reflects the actual service performance. This the audit objective noted in (b) in the EEM following 11.1.1 on page 119.</p> <p>In addition, and where applicable, the auditor should obtain a representation on internal control – in accordance with 44(d) of NZ AS 1 (Revised) – "Such internal control as those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error."</p>	<p>Include these as additional representations in 11.11.1.</p>	<p>This representation was excluded to maintain consistency with the representation letter for financial statements under the ISA for LCE, which does not explicitly address this matter.</p> <p>Rather than explicitly requiring this representation in the rep. letter, the standard instead requires a representation that TCWG "have fulfilled our responsibilities... as set out in the engagement letter"</p> <p>In the engagement letter TCWG acknowledge that they have a responsibility for such internal controls to enable the preparation of financial report/performance report that is free from material misstatement, whether due to fraud or error.</p> <p><b>Staff do not recommend adding an additional representation in Part 11.</b></p>
11.11.1 (a), 11.12.1, 11.12.3, the audit opinion on page 133, the Engagement Letter in [NZ] APPENDIX 2A, and the Representation Letter in [NZ] APPENDIX 7A..	<p>These paragraphs and documents contain the qualifying term "<i>in accordance with the entity's measurement bases and evaluation methods</i>". The equivalent term that would be used for the financial statements would be "<i>in accordance with the entity's accounting policies</i>".</p> <p>In our view the use of this qualifying phrase is unnecessary because it detracts from the particular matter on which the auditor is forming their opinion; in this instance that the service performance information "<i>is prepared, in all material respects, in accordance with the applicable financial reporting framework</i>".</p>	<p>Remove the qualifying term "<i>in accordance with the entity's measurement bases and evaluation methods</i>".</p>	<p>These requirements are consistent with a key principle for assurance, to identify the applicable criteria. Given these are not specified by the reporting requirements, this is needed.</p> <p><b>Staff do not recommend removing this term.</b> Amending this requirement would result in Part 11 being inconsistent with the requirements of NZ AS 1 (Revised) and NZ SRE 1, and would remove requirements that exist for all assurance engagements.</p>

Reference to ED	Respondent's Observation	Respondent's suggested actions	Staff response
11.12.4 (c)	<p>We consider the wording of this particular measure to be confusing.</p> <p>As observed previously carrying across wording in NZ AS 1 (Revised) to the ISA (NZ) for LCE is unnecessarily confusing. Instead of referring to “<i>measurement bases or evaluation methods</i>” it is suggested that we use terms found in the applicable accounting standard. In this instance paragraph A46 of the Tier 3 (NFP) Standard - Reporting Requirements for Tier 3 Not-for-Profit Entities (Issued May 2023) refers to “<i>measures and/or descriptions of the entity's significant activities or achievements</i>”.</p> <p>We also suggest that referring to “<i>are available to intended users</i>” is confusing. More usual terminology is “<i>are adequately disclosed</i>”.</p>	We recommend that 11.12.4 (c) is amended to read “ <i>the measures and/or descriptions of the entity's significant activities or achievements are adequately disclosed</i> ”.	<p>This wording is consistent with NZ AS 1 (Revised) par. 47 (b), and NZ SRE 1 para 43.(b). We need to be consistent across all standards, therefore <b>Staff do not recommend changing this paragraph</b>.</p> <p>Also, we anticipate Tier 2 and Tier 4 SPI may be audited using this standard, therefore we don't believe that Part 11 should just be aligned with Tier 3 requirements as the requirements need to be framework neutral.</p>
11.13.4	<p>The second sentence of 11.13.4 states: “<i>However, if in extremely rare circumstances the auditor concludes, based on the audit evidence obtained, that such service performance information is misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report.</i>”</p> <p>The use of the words “<i>in extremely rare circumstances</i>” makes an assumption about the integrity of a compliance framework that may be unfounded. An unintended consequence of including this wording may cause the auditor to abandon (or severely curtail) the exercise of “<i>professional scepticism</i>”.</p>	We recommend that the words “ <i>in extremely rare circumstances</i> ” are removed from 11.13.4.	<p>This paragraph was based on paragraph 9.3.3 which includes the same “<i>in extremely rare circumstances</i>”.</p> <p><b>Staff will further consider this paragraph, given the observation and suggested response.</b></p>
11.20.1 (a)	<p>11.20.1 (a) requires the auditor to communicate any <i>significant risks</i> identified with the service performance information to those charged with governance.</p> <p>As noted in Appendix 1 of our submission (in the reference to 6.6.1 on page 63 of the Exposure Draft) the purpose of this requirement is not made clear and needs to do so in order to give proper effect to the audit.</p> <p>In addition to explaining the purpose of this requirement, we suggest that it be relocated beneath the Planning Activities heading (section 11.3) of Part 11. Relocating this requirement to the audit planning section (and by including a suitable cross-reference to Part 5 of the Exposure Draft) is more likely to give proper effect to the audit.</p>	We recommend that the actions we have previously proposed following our observation in Appendix 1 of our submission (in the reference to 6.6.1 on page 63 of the Exposure Draft) incorporate the requirement of 11.20.1 (a) to communicate any significant risks identified with the service performance information to those charged with governance.	<p>Due to how the ISA for LCE is structured, specific communication requirements are located at the end of the part. <b>Guidance</b> will be needed to help auditors understand the structure of the ISA for LCE.</p> <p><b>Staff do not recommend changing this paragraph.</b></p>
<b>Question 13</b>			
<p><b>The following suggestions from CAANZ/CPA Australia:</b></p> <p>ISA (NZ) 510 paragraph A3</p>	An amendment to ISA (NZ) 510 paragraph A3 to make clear that use by the prior auditor of the ISA (NZ) for LCE standard does not in itself affect the value of the auditor's work in relation to the audit of opening balances	Implement the suggestions under the “ <i>Observation</i> ” column.	<p>This is noted, but rather than amending the standard, this could be attended to via guidance. <b>Staff do not recommend changing this paragraph.</b></p>

Reference to ED	Respondent's Observation	Respondent's suggested actions	Staff response
ISA (NZ) 710 paragraph 17	An amendment to ISA (NZ) 710 paragraph 17 to make clear that no disclosure should be made if the previous year audit was under the ISA (NZ) for LCE standard (by the same auditor), and if the previous auditor used the ISA (NZ) for LCE standard.	Implement the suggestions under the "Observation" column.	This is noted, but rather than amending the standard, could be attended to via guidance. <b>Staff do not recommend changing this paragraph.</b>
<b>The following suggestion is from PWC:</b> Paragraph 7.4.23	It is noted the current requirement to obtain a legal letter from in-house legal counsel has not been included for situations where in-house legal counsel has primary responsibility. This is paragraph NZ10.1 in ISA (NZ) 501. While it will be uncommon for these types of entities to have in-house legal counsel, the fact that the scope does not have a size threshold means the standard could be used on a large private company which could encounter litigation. Therefore it seems reasonable to include this for consistency purposes.	Implement the suggestions under the "Observation" column.	Paragraph 7.4.23 requires enquiry from in-house legal counsel to identify litigation and claims which may give rise to a risk of material misstatement. We originally determined that it is unlikely that a LCE would have an inhouse legal counsel, so not considered necessary to go into this level of detail.  However, as it is noted by a respondent that LCE could have in-house legal counsel, <b>Staff will further consider this.</b> A requirement could be added based on para. NZ10.1 of ISA (NZ) 501: "Where in-house legal counsel has the primary responsibility for litigation and claims and is in the best position to corroborate representations from management and those charged with governance, the auditor shall endeavour to obtain a representation letter from the in-house legal counsel, seeking information similar to that sought from the entity's external legal counsel."
<b>The following suggestions are from the OAG:</b> Contents page, NZP.13, and page 37	The structure of the ED does not make a clear distinction between Part A (the Authority part) and the parts that regulate the conduct of the audit (Parts 1 to 11). From a reader's perspective if there is a Part A then it follows there should be a Part B – but there is no Part B. The structure of the ED is explained in NZP.13 (on page 11) but this explanation comes too late to reduce confusion about structure.	Ideally, the contents page should include a reference to a Part B immediately below the Part A reference. Part B should be suitably titled – possibly: B APPLICATION OF THE ISA (NZ) FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES The "sub-parts" under Part B in the contents page could be differentiated by smaller font? Another improvement could be to move the explanation of the structure in NZP.13 to the beginning of the Preface.	The IAASB drafted a Part A (A for Authority), but there is no mention of Part B, etc. Staff do not consider it necessary to change what is drafted by the IAASB. Creating sub parts under Part B may complicate drafting and cross-referencing. <b>Staff do not recommend adding Part B.</b>  The paragraph NZP13 is the NZ version of P13 but includes reference to Part 11.. It is essentially a more detailed version of the contents page, at the front of the standard. <b>Staff do not recommend any changes are made to the placement of NZP.13.</b>
NZ1.2.2 on page 20	We agree that a firm will have a policy on PES 3 and PES 4 and will have requirements on which audits will require an EQR in addition to FMC reporting entities with a higher level of public accountability. However, we do not agree that PES 4 will be relevant to the audit of a LCE, i.e., an EQR is required for higher-risk audit	Consider including the need for an EQR as a factor for not applying the Standard on LCE.  Adapt the current application material accordingly.	The EEM of Para. 1.2.2. of the International ISA for LCE discusses both ISQM 1 and ISQM 2. The NZ equivalent is PES 3 and PES 4, which is reflected in the drafting of NZ equivalent EEM. There may be audits of

Reference to ED	Respondent's Observation	Respondent's suggested actions	Staff response
	engagements and should be an indicator to the auditor that the standard for LCE is perhaps not appropriate for a particular audit engagement.		LCEs where the auditor might choose to have an EQR and applies PES 4. <b>Staff do not recommend changing this paragraph.</b>
6.4.2 on page 61	For an audit of an LCE we question whether there should be a presumed risk of fraud in revenue recognition. This is because the entity is likely to have a single type of simple revenue transaction. Receiving cash revenue for small entities in the public sector is also reducing and becoming less of a risk for such audits.	6.4.2 could be redrafted similarly to 6.4.3 (relating to estimation uncertainty of accounting estimates), to consider specific matters when identifying and assessing the risk of material misstatement in revenue recognition (so that it is not automatically assessed as significant, triggering additional procedures around controls etc.).  The specific matters to consider could include the complexity over revenue recognition and how revenue is received by the entity.	These points are noted, however staff do not recommend deviating from what is drafted by the IAASB. The contents of Part 6 were consulted on in 2022, no issues were raised on these matters during that consultation process.  The presumed risk of fraud in revenue recognition is consistent with the ISAs (ISA (NZ) 240 para. 27). EEM at 6.4.2. says that this presumption may be rebutted, and provides an example of when. <b>Staff do not recommend changing this paragraph.</b>
6.5.1 on page 63	The requirement to consider whether the ISA for LCE is still appropriate after the "risk assessment" process, seems problematic from a cost and timing perspective. It is also not clear what the risk assessment would need to indicate for the auditor to conclude that the full ISAs are necessary.	Consider prohibiting a change during an audit. Consider the requirements from ISAE NZ 3000 which does not allow an auditor to move from reasonable assurance to limited assurance during the engagement based on what was identified during planning.	The EEM at 6.5.1. states that "The auditor's original determination to use the ISA for LCE may change as new information or additional audit evidence is obtained when performing procedures to identify and assess risks of material misstatement." After understanding the entity and doing the risk assessment, the auditor may then evaluate that the entity is no longer an LCE. This paragraph prompts the auditor into actively thinking if this standard remains suitable before starting on the procedures to respond to the risks.  <b>Staff do not recommend prohibiting changing between ISA for LCE and the full ISAs during the audit.</b> This would be out of line with the IAASB. If an auditor finds that, after understanding the entity, or assessing risk, that they need to undertake procedures that are found in the ISAs (NZ), then they should be able to transition to the full ISAs without prohibition. We understand guidance on transitioning between ISAs and the ISA for LCE will be published by the IAASB in due course.
6.6.1 on page 63	6.6.1 requires the auditor to communicate with management, and where appropriate, those charged with governance, the <i>significant risks</i> identified by the auditor.	Many of the significant risks will be known to the auditor at the planning stage of the audit.	These points are noted, however staff do not recommend deviating from what is drafted by the IAASB.

Reference to ED	Respondent's Observation	Respondent's suggested actions	Staff response
	<p>The ED does not explain the purpose of this requirement and needs to do so in order to give proper effect to the audit.</p> <p>The requirement flows from paragraph 15 of ISA (NZ) 260. The communication is carried out following the audit planning process regarding the planned scope and timing of the audit. The communication helps entity personnel to understand the significant risks and may assist them in fulfilling their responsibility to oversee the financial reporting process. The communication may also assist entity personnel in identifying any areas in which they may request the auditor to undertake additional procedures.</p> <p>In our opinion, apart from not explaining its purpose, the requirement comes too late in the audit process to be effective. For example the fieldwork component of the audit for many less complex entities will take place over the course of one or two days. Any significant risks that have not previously been identified will be identified and resolved (if possible) at the time of the audit visit. There will be insufficient time for the communication required under 6.6.1.</p>	<p>We recommend that the communication of significant risks to the entity is carried out either:</p> <ul style="list-style-type: none"> <li>When the auditor has completed the requirements in 5.2.4, 5.2.5 and 5.2.6; or</li> <li>Following the engagement team discussion in 5.2.7.</li> </ul> <p>As a consequence the requirement to communicate significant risks to entity personnel should be combined with the communication requirements of 5.4.1.</p>	<p>Specific communication requirements relating to a part are located towards the end of that part. Part 6 is about risk identification and assessment; therefore, staff believe that communicating about significant risks identified should be contained within Part 6.</p> <p>Education and <b>guidance</b> may be needed on the structure of the standard, if this standard is issued.</p> <p><b>Staff do not recommend changing this paragraph.</b></p>
7.3.7 on page 68 Based on ISA (NZ) 330 para 12	We understand that this is a conditional requirement, however we question why the ISA (NZ) for LCE is referring to an 'interim audit'. It is not clear why an interim audit would be relevant or necessary in an audit of a less complex entity.	Consider removing reference to interim audits.	These points are noted. Staff experience is that schools, and some larger charities may have interim audits, therefore we consider this paragraph to be relevant. <b>Staff do not recommend changing this paragraph.</b>
<p>The EEM following 8.6.3 on page 91.</p> <p>This EEM is from para. NZA20.1 of ISA (NZ) 580.</p>	<p>The second paragraph of the EEM beneath 8.6.3 states: <i>"[NZ] If the auditor intends to rely on some, or all, of the written representations made by those charged with governance in a written public statement, the auditor ordinarily communicates their intention to place such reliance."</i></p> <p>We presume that the communication is intended to be made by the auditor to entity governors.</p> <p>In the public sector a written public statement of representation is often required to be provided by entity governors. This statement is required to accompany the entity's audited accountability documents.</p> <p>It is not normal practice for the auditor to communicate their intention to place reliance on the written public representations for two reasons:</p> <ol style="list-style-type: none"> <li>1. Auditors don't normally communicate their intention to rely on a representation – whether the representation is made in a written public statement or in a representation letter provided by the entity; and</li> <li>2. Auditors don't rely solely on representations provided by an entity. The representations support</li> </ol>	<p>We recommend that the second paragraph of the EEM beneath 8.6.3 is removed.</p>	<p>Although this scenario may be rare in LCE audits, staff consider that the alignment between the ISA for LCE and ISA (NZ) 580 should be maintained. <b>Staff do not recommend changing this paragraph.</b></p>

Reference to ED	Respondent's Observation	Respondent's suggested actions	Staff response
	evidence that the auditor has obtained as part of the audit.		
8.8.1 and 8.8.2 on pages 92 and 93. Para. 8.8.1. requires communication of misstatements with management, which is consistent with ISA (NZ) 450, para. 8.  Para. 8.8.2. requires communication with governance on a variety of matters, which is consistent with ISA (NZ) 450, para. 12-13, ISA (NZ) 260R, para 16, ISA (NZ) 540R, para. 38, ISA (NZ) 550 para. 27, ISA (NZ) 240 para 43.	These requirements are quite prescriptive in that they make a clear distinction between management and those charged with governance. When auditing a less complex entity it is possible that a single communication to one party (such as those charged with governance) with a copy to the other party (management) will satisfy the requirements of 8.8.1 and 8.8.2.	We recommend that the ED is amended to provide flexibility to communicate appropriately to an entity where a clear distinction between entity governors and management is not obvious. This is the case in many small entities. A suitable amendment could be made by drawing on the content of paragraphs 13 and A8 of ISA (NZ) 260.	The NZ paragraph, NZP.7.A. states that "Auditors shall use professional judgement and knowledge of New Zealand's legal and governance standards to assess if this standard's requirements pertain to management, those charged with governance, or both". We believe that this enables flexibility for the auditor to determine who to communicate with. Furthermore, the contents of paragraph 13 of ISA (NZ) 260 mentioned by the respondent is replicated at para 1.8.5. of the ISA for LCE  <b>Staff do not recommend changing this paragraph</b> , particularly as the requirement noted is already in the ISA for LCE.
9.7.1, 9.7.2, 9.7.4, 9.7.7 and 9.7.8 on pages 110 and 111	These paragraphs do not apply in the NZ context.	These paragraphs should be removed to avoid confusion and enable auditors to comply with Part 9 in full (A requirement of ISA (NZ) for LCE).	EEM at 9.7 states that those paragraphs mentioned have no application. This presentation is similar to ISA (NZ) 710, para. NZA7.1 which specifies that those paragraphs which have no application, but leaves the paragraphs in the standard. <b>Staff believe the current presentation is clear and consistent, and do not recommend any deletion of paragraphs.</b>
Page 98 and page 134 - the auditor's report	To mitigate misconceptions that an audit carried out under the ISA (NZ) for LCE provides less assurance than an audit carried out under the full ISA (NZ)s we suggest that two steps could be taken: <ol style="list-style-type: none"><li>1. Check that the audit report format and structure aligns with the illustrated audit reports in the Appendix commencing on page 41 of ISA (NZ) 700 (Revised); and</li><li>2. Include a paragraph in the audit reports to indicate that the ISA (NZ) for LCE standard provides the same assurance as an audit carried out under the ISA (NZ)s, as they both provide reasonable assurance, with the only difference being that the ISA (NZ) for LCE is tailored for the audits of LCEs.</li></ol>	Implement the suggestions under the "Observation" column.	Staff consider the format and content of the audit report, to be consistent with ISA (NZ) 700 (Revised) (and NZ AS 1 (Revised)).  The Auditors responsibilities state that "Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error" Comparing an auditor's report under both frameworks, both state that the auditor is obtaining reasonable assurance. Adding a paragraph the ISA (NZ) for LCE standard provides the same assurance as an audit carried out under the ISAs (NZ) is not needed.  <b>Guidance</b> and education may be needed, if this standard is adopted, to highlight that

Reference to ED	Respondent's Observation	Respondent's suggested actions	Staff response
Page 100 and page 135 - the auditor's report	The auditor's reports, in both instances, make no reference to the possibility that the auditor may need to refer to "Other Information". If auditors refer to the template auditor's reports in the ED they may overlook the need to inform the users of the work carried out on the other information that accompanies the audited information.	In both instances we recommend that the template auditor's reports include the heading "Other Information" and beneath that heading cross refer to the other Information requirements on pages 112 and 113 of the ED.	<p>both the ISAs and ISA for LCE provide the same level of reasonable assurance.</p> <p>The form and content of the audit report at para. NZ9.4.1.A. does not include an other information section. It was not considered relevant to an audit of a LCE by the IAASB. The broad aspects for the auditor's consideration of other information has been retained as appropriate in the ISA for LCE at para. 9.8.7.</p> <p>The IAASB has issued <i>The ISA for LCE – Auditor Reporting Supplemental Guidance</i> which includes an illustration with other information, along with other scenarios. If the standard is adopted, we anticipate making this guidance available as well.</p> <p><b>Staff do not recommend adding other information into the illustrative auditor's report within the standard.</b></p>





## NZAuASB Board Meeting Summary Paper

Meeting date: 9 April 2025  
Subject: IAASB Experts Narrow-Scope Amendments  
Date: 25 March 2025  
Prepared By: BM



Action Required



For Information Purposes Only

### Agenda Item Objectives

1. The Objective of this agenda item is to:
  - a. UPDATE the board on the IAASB's *Experts Narrow-Scope Amendments* project;
  - b. AGREE whether the XRB should respond to the IAASB's narrow scope exposure draft; and
  - c. If the board agrees, DISCUSS the potential outreach approach.

### Background

2. As discussed at the previous board meeting, the IESBA recently issued *Revisions to the Code addressing the work of an external expert*.
3. In response to the IESBA's standard, the IAASB's project considers targeted amendments to IAASB standards to ensure the standards remain interoperable, as to when the auditor can use the work of an expert, considering their competence, capability and objectivity (CCO).
4. The Project Proposal and Exposure Draft (ED)<sup>1</sup> were approved by the IAASB in March 2025.

### Proposed amendments

5. The exposure draft proposes:
  - a. Targeted amendments to the auditing standard ISA 620<sup>2</sup>.
  - b. Targeted amendments to other IAASB standards ISAE 3000 (Revised)<sup>3</sup>, ISRE 2400<sup>4</sup>, and ISRS 4400<sup>5</sup>.

<sup>1</sup> A copy of the draft project proposal and proposed exposure draft are on the IAASB's meeting [website](#)

<sup>2</sup> ISA (NZ) 620, *Using the Work of an Auditor's Expert*

<sup>3</sup> ISAE (NZ) 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

<sup>4</sup> ISRE (NZ) 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*

<sup>5</sup> ISRS (NZ) 4400 *Agreed-Upon Procedures Engagements*



6. The following is not in scope:
  - a. A full review and revision of ISA 620.
  - b. Considerations relating to the work of an auditor's or practitioner's internal expert or the work of a management's expert.
  - c. ISSA 5000 because it was recently issued and interoperability with the IESBA's new use of experts standards was considered in finalising both these new standards.
  - d. ISAE 3410 because this standard will be withdrawn.

#### *Targeted amendments to requirements*

7. The proposals include a new requirement in ISA 620 for the auditor to consider the provisions of relevant ethical requirements related to using the work of an expert. This will draw a bridge between the ISA requirements and the new Code of Ethics provisions. The new Code of Ethics provisions require:
  - a. external experts to provide written information on their objectivity and
  - b. written terms of engagement between the practitioner and external expert.

#### *Targeted amendments to application material*

8. The proposals include new application material in ISA 620 for auditors to consider relevant ethical requirements when evaluating the CCO of the expert. Similar proposals are considered for ISAE 3000 (Revised), ISRE 2400 and ISRS 4400.
9. New application material in ISA 620 regarding the evaluation of the adequacy of the auditors' expert's work now explicitly states that the "requirement to evaluate the adequacy of the auditor's expert's work is based on the presumption that the auditor has determined that the expert has the necessary CCO". Previously this presumption had been implicit in the standard.

#### **Responding to the planned consultation**

10. As documented on our Prioritisation Plan, this is a Low priority project for the Board. It covers narrow scope amendments, aimed at ensuring the interoperability of the standards.
11. Staff recommend that the XRB consult with our stakeholders and respond to the IAASB's consultation and exposure draft because the proposed amendments are aimed at ensuring the interoperability of the ethical and assurance standards, which is crucial for maintaining consistency and coherence in the application of those standards in New Zealand.
12. The proposed wording for the exposure draft was discussed at our technical reference group on 11 March to inform the discussion at the March IAASB meeting. Overall, no issues were noted on the proposed drafting.
13. Our planned engagement, given the low priority, and deals with narrow scope amendments, is:
  - a. Publish the IAASB's Exposure draft and an accompanying brief NZ consultation document which discusses any NZ specific items, exploring the costs vs benefits.
  - b. Advertising on our website, LinkedIn posts and the Audit and Assurance Alert.
  - c. Awareness raising about the consultation in the need-to-know webinar on 3 April.
14. Staff have considered whether there are any targeted amendments required for other XRB standards, to inform our outreach approach. We recommend:

- a. No conforming amendments are needed in NZ SRE 1<sup>6</sup>. ISRE (NZ) 2400 is the overarching standard, and used concurrently with NZ SRE 1. NZ SRE 1 does not specifically deal with the use of an external expert. If an external expert is used in the review of SPI, then the requirements of ISRE (NZ) 2400 would apply.
- b. No conforming amendments are needed in NZ AS 1 (Revised)<sup>7</sup>. Paragraph 43 of NZ AS 1 (Revised) requires the auditor to determine whether to use the work of an auditor's expert, and refers to ISA (NZ) 620. Where the auditor determines that the use of a work of an auditor's expert is necessary in the audit of SPI then ISA (NZ) 620 would apply.
- c. No conforming amendments are needed in SAE 3100 (Revised)<sup>8</sup>, SAE 3150<sup>9</sup>, and SAE 3450<sup>10</sup>. These standards are used in conjunction with ISAE (NZ) 3000 (Revised). Therefore, the proposed amendments to ISAE (NZ) 3000 (Revised) will apply when engagements are undertaken using these standards.
- d. No conforming amendments are needed in NZ SRE 2410 (Revised)<sup>11</sup>. This standard is being revised internationally by the IAASB. Furthermore, the current standard already requires compliance "with relevant ethical requirements relating to the audit of the annual financial statements of the entity", being the XRB's code of ethics. Therefore, the code of ethics section on using the work of an external expert will apply if engagements are undertaken using this standard and the practitioner uses the work of an external expert.

### **Next steps**

15. The IAASB proposes the following timetable, which is subject to change:

Timeline	Proposed Activities and Deliverables
March 2025	<ul style="list-style-type: none"> <li>Approval of an exposure draft by the IAASB.</li> </ul>
April 2025	<ul style="list-style-type: none"> <li>Publish exposure draft and accompanying explanatory memorandum for a 90-day comment period.</li> </ul>
July 2025	<ul style="list-style-type: none"> <li>Comment period for responses to exposure draft closes.</li> </ul>
September 2025 or December 2025	<ul style="list-style-type: none"> <li>IAASB deliberation of responses to the exposure draft and resulting proposed changes to address feedback.</li> <li>IAASB approval of the final pronouncement.</li> </ul>
October 2025 or January 2026	<ul style="list-style-type: none"> <li>PIOB certification</li> <li>Publish final targeted amendments and Basis for Conclusions after PIOB certification</li> </ul>

### **Matters to Consider**

1. Does the Board agree to write a submission to the IAASB in due course?
2. Does the Board agree with the proposed outreach approach?
3. Does the Board have any further matters to include in the consultation document?

<sup>6</sup> NZ SRE 1 *The Review of Service Performance Information*

<sup>7</sup> NZ AS 1 (Revised) *The Audit of Service Performance Information*

<sup>8</sup> SAE 3100 (Revised) *Compliance Engagements*

<sup>9</sup> SAE 3150 *Assurance Engagements on Controls*

<sup>10</sup> SAE 3450 *Assurance Over Financial Information Prepared in Connection with a Capital Raising*

<sup>11</sup> NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity*



## NZAuASB Board Meeting Summary Paper

Meeting date: 9 April 2025  
Subject: Fraud  
Date: 26 March 2025  
Prepared By: Sharon Walker

☐ Action Required

☒ For Information Purposes Only

### Agenda Item Objectives

1. The objective of this agenda item is:
  - To update the Board on international developments;
  - To update the Board on changes made in finalising the fraud standard, including how XRB recommendations were dealt with; and
  - For the Board to discuss whether to adopt ISA 240 (Revised) in New Zealand.

### Background

2. ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, was approved by the IAASB at its March 2025 meeting. Approved Text is available [here](#). Approved text of related conforming and consequential amendments is available [here](#). The final standards will be issued pending PIOB certification, effective for audits of financial statements for periods beginning on or after 15 December 2026.
3. Internationally, respondents were generally supportive of revisions to strengthen the fraud standard. Areas that generated mixed views related to:
  - The auditor's responsibilities relating to third party fraud, non-material fraud and how illegal acts like corruption, bribery and money laundering relate to fraud. In addition, the interaction between the fraud standard and the requirements for non-compliance with laws and regulations.
  - The risk identification and assessment, in particular the approach taken to integrate the fraud lens with the foundational requirements of ISA 315 (Revised 2019)<sup>1</sup> as it may result in duplication of effort in practice.
  - The approach to management override of controls.
  - A need for additional scalability and proportionality in the auditor's response to fraud or suspected fraud requirements.
  - Support for the proposal to enhance transparency about fraud-related matters in the auditor's report but mixed views on how to operationalise the approach.
4. The IAASB issued its [exposure draft](#) in February 2024 with a 120 day exposure period.

### New Zealand context

5. We consulted concurrently in New Zealand. Our outreach included:

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

- A discussion with XRAP.
  - A virtual feedback forum where we obtained feedback through polling and discussion. Twenty-eight participants, mostly practitioners, attended the feedback forum.
  - Discussions about fraud from the events with IAASB Chair, Tom Seidenstein, held in late February 2024.
6. We received no written responses to the consultation. Feedback received from the Audit Technical Reference Group was used to inform our submission.
  7. 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 this analysis, staff consider that the IAASB has been responsive to the comments and suggestions made by the XRB.
  8. The following NZ contextual modifications, reflected in extant ISA (NZ) 240 and discussed with the Board at its November 2023 meeting, have been identified for inclusion in a revised standard, subject to the NZAuASB's decision to adopt:
    - Written representations to be obtained from those charged with governance.
    - References to "listed entities" to be changed to "FMC reporting entities considered to have a higher level of public accountability".
  9. Cost/benefit considerations are addressed in the issues paper.

### **Harmonisation and convergence**

10. The AUASB considered the revised ISA 240 at its March 2025 meeting, agreeing in principle to adopt. An Australian version will be brought to a future AUASB meeting. Extant ASA 240 contains two Australian specific paragraph that references the Corporations Act as a footnote. The staff of the Office of the AUASB recommend that the footnote references to the Corporations Act be retained. These are not relevant for New Zealand. No other harmonisation or convergence issues have been identified at this stage.

### **Recommendation**

11. We recommend:
  - That the XRB's key submission points have been dealt with by the IAASB.
  - That the XRB agree in principle, to adopt ISA 240 (Revised) amended to:
    - Reflect NZ legal and regulatory arrangements.
    - Apply differential requirements to FMC reporting entities considered to have a higher level of public accountability.

### **Next steps**

12. If the NZAuASB agrees with staff's recommendations, a NZ standard will be presented for approval, expected at the August NZAuASB meeting pending PIOB certification.
13. We note that internationally the revised going concern and fraud standards are effective as a package. We anticipate that we may not be able to permit early adoption.

## **Issues paper: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements**

### **Structure of this memo**

1. This memo includes the following sections.

- (a) [XRB submission and how significant comments were addressed](#)
- (b) [Cost/benefit considerations](#)

### ***XRB Submission and how significant comments were addressed***

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

- (a) Overall support for clarifying the auditor's responsibility for fraud in an audit of financial statements and strengthening the auditor's consideration of fraud.
- (b) Concern that there may be some "scope creep" with regard to third-party fraud. (paragraph 7)
- (c) Request for clarification whether mitigating controls can be taken into account in assessing fraud risks. (paragraphs 9 to 10)
- (d) Concern about the practicality and scalability of the required response when the auditor identifies or suspects fraud, including allegations of fraud. Lack of any reference to materiality considerations in applying the requirement may lead the auditor to spend significant time investigating matters that are clearly inconsequential to the audit. (paragraphs 11 to 12)
- (e) Support for the use of the key audit matter mechanism for communicating fraud-related matters, noting however, that the ability to report fraud-related matters as key audit matters is already available to auditors but: (paragraphs 13 to 17)
  - Concern that creating a separate subset of key audit matters may give fraud related matters greater prominence than is warranted. While we support enhancing transparency and the auditor's report highlighting fraud considerations more regularly within key audit matters, a heading that highlights "fraud" implies that key audit matters are about either fraud or not. In our view it is more likely that key audit matters will contain elements of both fraud and error.
  - Disagreement with including a statement that there are no key audit matters related to fraud.
  - The XRB recommendation to the IAASB was to retain the existing title "key audit matters" and to delete paragraphs 63 and 64 in the ED<sup>1</sup>.
- (f) The need to be transparent about plans to update and maintain the ISA for LCE in line with relevant revisions to the ISAs. Refer to ISA (NZ) for LCE papers in agenda item 5.

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<sup>1</sup> Paragraphs 63 and 64 of the ED proposed to require (63) an appropriate subheading that clearly describes that the matter relates to fraud and (64) when, depending on the facts and circumstances of the entity and the audit, the auditor determines that there are no key audit matters related to fraud to communicate, the auditor shall include a statement to this effect in the Key Audit Matters section of the auditor's report.

3. Below staff analyse the extent to which we consider the XRB's concerns have been addressed. Grey shaded boxes provide the approved text of the [final standard](#) or related [conforming and consequential amendments](#), as appropriate.

The auditor's responsibilities for fraud in an audit of financial statements

4. The ED proposed to decouple the inherent limitations relating to fraud in an audit of financial statements from the auditor's responsibilities. The description of the auditor's responsibilities is more succinct and unencumbered by language that may be construed as diminishing the auditor's responsibilities.
5. The XRB submission supported the decoupling of the inherent limitations of the audit, noting that the inherent limitations do not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. However, the XRB did express concern that (1) the auditor's responsibilities regarding third-party fraud are not clearly defined and (2) the link with ISA 250 (Revised)<sup>2</sup> (given fraud constitutes an instance of non-compliance with laws and regulations) could be clearer.
6. The ED clarified that fraud constitutes an instance of non-compliance with laws and regulations. As such, if the auditor identifies fraud or suspected fraud, the auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, which may differ from or go beyond this and other ISAs.
7. In response to concerns (including from the XRB) about a lack of clarity around the auditor's responsibilities relating to third-party fraud the IAASB has introduced application material in paragraphs A21-A22 that describes the third parties that may be considered by the auditor in applying the proposed standard.

A21. Fraud or suspected fraud committed against the entity by parties external to the entity is generally described as third-party fraud. Fraud as defined in paragraph 18(a) can include an intentional act by a third party and, accordingly, if an intentional act by a third party is identified or suspected that may have resulted in misappropriation of the entity's assets or fraudulent financial reporting by the entity, the auditor performs audit procedures in paragraphs 54–57.

A22. Parties external to the entity that may commit third-party fraud may include:

- Related parties, where potential opportunities for collusion with management, overly complex transactions, or bias in the structure of transactions may exist, as explained in ISA 550<sup>3</sup>.
- Third parties with which the entity has a relationship to support their business model such as customers, suppliers, service providers or other external parties known to the entity. These relationships may introduce the risk of collusion with employees or others in the entity to, for example, create fictitious transactions to manipulate financial results.
- Third parties unknown to the entity that may, for example, attempt to gain unauthorized access to an entity's IT environment that affects financial reporting or assets, or disrupts the entity's business operations or financial reporting processes.

<sup>2</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

<sup>3</sup> ISA 550, *Related Parties*

8. To address requests for clarity about how proposed ISA 240 (Revised) is intended to interact with ISA 250 (Revised), the IAASB has:
  - (a) Revised paragraph 14 to soften the link with ISA 250 (Revised), to state that fraud ordinarily constitutes an instance of non-compliance with laws and regulations. This recognizes that third party fraud may not always be an instance of non-compliance, however it is expected in most cases that fraud would constitute an instance on NOCLAR.
  - (b) Introduced application material in paragraph A15A, including an example, to clarify that complying with the requirements of proposed ISA 240 (Revised) may also fulfil certain applicable requirements in ISA 250 (Revised).

A15A. Complying with the requirements of this ISA may also fulfill certain applicable requirements in ISA 250 (Revised).

Example:

- When performing tests of details on a bank's loan portfolio, the auditor identified a series of loans to newly formed entities connected to senior management that lacked appropriate documentation. The auditor determined the circumstances were indicative of fraudulent approvals of loans by senior management to related parties. After obtaining an understanding of the suspected fraud in accordance with paragraph 54, the auditor concluded the understanding was also sufficient to meet the requirement in paragraph 19(a) of ISA 250 (Revised). The auditor evaluated the possible effect on the financial statements of the fine for the entity's suspected violation of banking regulations regarding related-party lending in accordance with paragraph 19(b) of ISA 250 (Revised).

#### Risk Identification and Assessment

9. Respondents to the ED, including the XRB, expressed confusion with regard to the relationship between fraud risk factors and the concept of inherent risk factors in ISA 315 (Revised 2019)<sup>4</sup>. ISA 315 (Revised 2019) states, the identification of risks of material misstatement to be performed before consideration of related controls (i.e., the inherent risk) and is based on the auditor's preliminary consideration of misstatements that have a reasonable possibility of both occurring, and being material if they were to occur.<sup>5</sup>
10. The IAASB has clarified in the application material, when fraud risk factors are inherent risk factors, the inherent risk is assessed before consideration of controls.

<sup>4</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>5</sup> ISA 315 (Revised 2019), paragraph A186

A23. The presence of fraud risk factors may affect the auditor's assessment of inherent risk or control risk. Fraud risk factors may:

- Be inherent risk factors, insofar as they affect inherent risk, and may be due to management bias. They may also arise from other identified inherent risk factors (e.g., complexity or uncertainty may create opportunities that result in a susceptibility to misstatement due to fraud). When fraud risk factors are inherent risk factors, the inherent risk is assessed before consideration of controls.
- Relate to events or conditions that may exist in the entity's system of internal control that provide an opportunity to commit fraud and are relevant to the consideration of the entity's controls (i.e., related to control risk), and may be an indicator that other fraud risk factors are present.

#### Identified or Suspected Fraud

11. Respondents to the ED, including the XRB, were concerned that the proposal for the auditor to obtain an understanding of all instances of identified fraud or suspected fraud, without any reference to materiality or limiting factors, was impracticable and lacked scalability.
12. In response to these concerns, the IAASB:
  - (a) introduced a threshold in the fraud or suspected fraud requirements that allows auditors to exclude instances of fraud or suspected fraud determined to be 'clearly inconsequential' based on the understanding obtained
  - (b) developed application material in paragraph A160 on how the auditor can leverage the understanding of the whistleblower program to determine whether allegations of fraud (i.e., which are treated as suspected fraud) are clearly inconsequential.

A160. The auditor may use information obtained from their understanding of the entity's whistleblower program in accordance with paragraph 32(a)(ii), including the entity's process for investigating and remediating allegations of fraud that came through the entity's whistleblower program, to determine whether a fraud or suspected fraud is clearly inconsequential.

Example:

- Based on an understanding of the suspected fraud obtained through understanding the entity's whistleblower program, the engagement partner believed the suspected fraud was clearly inconsequential because it was limited to the misappropriation of immaterial assets by employees.

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

13. In the ED, the IAASB sought to develop requirements and application material that drive the communication of Key Audit Matters (KAMs) related to fraud to meet the needs expressed by stakeholders for more transparency about matters related to fraud in the auditor's report. To do so, the IAASB proposed:
  - (a) A requirement that the auditor should include a statement in the auditor's report when there are no KAMs related to fraud to communicate; and



- (b) Application material that encourages the auditor to communicate KAMs related to fraud.
14. Respondents to the ED, including the XRB, were generally supportive of the IAASB's efforts to enhance transparency but expressed various concerns, including:
- The risk of widening the expectation gap
  - The inconsistency to state that there are no KAMs related to fraud when a KAM related to fraud can't be communicated in the auditor's report (e.g., when a fraud or suspected fraud is under investigation).
  - The risk of having standardized boilerplate KAMs
15. In finalizing the revised standard, the IAASB removed the proposed requirement to state that there are no KAMs related to fraud. The IAASB also removed the words "including Matters Related to Fraud" from the Key Audit Matters section heading. XRB staff support this change.
16. The requirement to use an appropriate subheading for each KAM that clearly describes that the matter relates to fraud) is retained. The IAASB is of the view that it is important to signal to users of the financial statements that a specific KAM relates to fraud particularly given the proposed changes to the header of the KAMs section. Not signalling this would make it harder for users of the financial statements to identify which KAMs relate to fraud and which do not. Thus, it would also make the auditor's report less transparent which contradicts one of the objectives of this project.

61. In applying ISA 701<sup>6</sup>, in the Key Audit Matters section of the auditor's report, the auditor shall use an appropriate subheading that clearly describes that the matter relates to fraud. (Ref: Para A185-A190)

17. The XRB's submission also expressed that fraud and error are often interlinked. The IAASB added the following application material in paragraph A185 that explains,

A185. If a matter related to fraud is determined to be a key audit matter and there are a number of separate, but related, considerations that were of most significance in the audit, the auditor may communicate the matters together in the auditor's report. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition and revenue recognition may also be identified as a risk of material misstatement due to fraud. In such circumstances, the auditor may include in the auditor's report one key audit matter related to revenue recognition with an appropriate subheading that clearly describes the matter, including that it relates to fraud.

#### *Responsiveness to XRB concerns*

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

#### *Other Changes Made by the IAASB in Finalising the ISA 240 (Revised)*

##### Definition of fraud risk factors

19. The definition of fraud risk factors has been revised to include "a rationalisation that justifies the fraudulent action."

<sup>6</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

18(b) Fraud risk factors – Events or conditions that indicate an incentive or pressure to commit fraud, or provide an opportunity to commit fraud, or an attitude or rationalization that justifies the fraudulent action. (Ref: Para. A23–A25)

### Professional scepticism

20. The IAASB has added a requirement for the auditor to investigate inconsistencies in responses to inquiries.

21. Where responses to inquiries of management, those charged with governance, individuals within the internal audit function, or others within the entity are inconsistent, the auditor shall investigate the inconsistencies. (Ref: Para. A32)

30. In applying ISA 500<sup>7</sup>, if the responses to inquiries of management, those charged with governance, individuals within the internal audit function, or others within the entity, are inconsistent with each other, the auditor shall:

- (a) Determine what modifications or additions to audit procedures are necessary to understand and address the inconsistency; and
- (b) Consider the effect, if any, on other aspects of the audit

### Engagement team discussion

21. Additional elements have been specified in the required engagement team discussion, as follows:

29. In applying ISA 315 (Revised 2019), when holding the engagement team discussion, the engagement partner and other key engagement team members shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur. In doing so, the engagement team discussion shall include: (Ref: Para. A42, A52–A53 and A58)

- (a) An exchange of ideas about: ...
  - (iii) Which types of revenue, revenue transactions or relevant assertions may give rise to the risks of material misstatement due to fraud in revenue recognition; and
  - (iv) How management may be able to override controls. (Ref: Para. A57)

### Management override of controls

22. Consistent with extant ISA 240<sup>8</sup>, the ED proposed that the risk of management override of controls is a risk of material misstatement due to fraud and thus a significant risk.
23. Respondents to the ED sought clarification whether the significant risk related to management override of controls exists at the financial statement level or at the assertion level for classes of transactions, account balances and disclosures.
24. The IAASB confirmed that assessed risks of material misstatement (ROMMs) due to fraud are always treated as significant risks. The IAASB further clarified that ROMMs due to

<sup>7</sup> ISA 500, *Audit Evidence*

<sup>8</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 32

fraud at the financial statement level can be a significant risk, in addition to ROMMs at the assertion level. In accordance with ISA 315 (Revised 2019), ISA 240 (Revised) designate ROMMs at the financial statement level as significant risks and includes the requirements for what the auditor needs to do as a result. The approved text highlights that ROMMs due to fraud related to management override of controls are at the financial statement level. The auditor is also required to determine whether they affect risks at the assertion level.

#### **Identifying and Assessing the Risks of Material Misstatement due to Fraud**

39. In applying ISA 315 (Revised 2019), the auditor shall:

(a) Identify and assess the risks of material misstatement due to fraud and determine whether they exist at the financial statement level, or the assertion level for classes of transactions, account balances and disclosures, taking into account fraud risk factors. (Ref: Para. A112–A114)

(b) Treat those assessed risks of material misstatement due to fraud as significant risks. Accordingly, to the extent not already done so, the auditor shall identify controls that address such significant risks, evaluate whether they have been designed effectively to address the risks of material misstatement, or designed effectively to support the operation of other controls, and determine whether they have been implemented. (Ref: Para. A114A)

#### *Risks of Material Misstatement Due to Fraud Related to Management Override of Controls*

40. Due to the unpredictable way in which management is able to override controls and irrespective of the auditor's assessment of the risks of management override of controls, the auditor shall: (Ref: Para. A115–A116)

(a) Treat the risks of management override of controls as risks of material misstatement due to fraud at the financial statement level; and

(b) Determine whether such risks affect the assessment of risks at the assertion level.

#### Stand-back requirement

25. In finalising the standard, the IAASB agreed to include a stand-back requirement. There had been mixed views throughout the project, with some (including the XRB) concerned at the proliferation of stand-back requirements across the suite of ISAs. The XRB view was that a separate stand-back requirement was not necessary given the general stand-back requirements already in place, for example in ISA 315 (Revised 2019) and ISA 330, that address both fraud and error.

53A. In applying ISA 330<sup>9</sup>, the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether:

(a) The assessments of the risks of material misstatement due to fraud remain appropriate; and

(b) Sufficient appropriate audit evidence has been obtained in response to the assessed risks of material misstatement due to fraud.

<sup>9</sup> ISA 330, *The Auditor's Response to Assessed Risks*, paragraphs 25–26, A62–A64

### Written representations

26. In finalising the approved text, the IAASB requires the auditor to obtain written representations from management, and where appropriate those charged with governance that: (approved text, paragraph 62)

(c) They have disclosed to the auditor their knowledge of any fraud or suspected fraud, including allegations of fraud, affecting the entity involving:

- (i) Management;
- (ii) Employees who have significant roles in internal control; or
- (iii) Others where the fraud could have *an effect on* the financial statements; and... [emphasis added]

27. The extant requirement relates to fraud or suspected fraud involving others that may have a *material* effect on the financial statements.

### Communication with those charged with governance

28. In finalising the approved text, the IAASB has changed the requirement to communicate with those charged with governance fraud or suspected fraud involving “others where the fraud results in a *material misstatement* to the financial statements” to “others, except for matters that are *clearly inconsequential*.” [emphasis added]

64. Unless all of those charged with governance are involved in managing the entity, if the auditor identifies fraud or suspected fraud, involving: (a) Management; (b) Employees who have significant roles in internal control; or (c) Others, except for matters that are clearly inconsequential, the auditor shall communicate these matters with those charged with governance on a timely basis. If the auditor identifies suspected fraud involving management, the auditor shall communicate the suspected fraud with those charged with governance and discuss with them the nature, timing, and extent of audit procedures necessary to complete the audit. Such communications with those charged with governance are required unless the communication is prohibited by law or regulation. (Ref: Para. A193 and A195–A197)

### Group engagements (conforming amendment)

29. The IAASB added a requirement in ISA 600 (Revised)<sup>10</sup> for the group auditor to take responsibility for obtaining an understanding of identified or suspected fraud. This was on the basis that it does not matter who identifies a fraud, the group auditor still takes responsibility for understanding those matters. The response may be delegated to the component auditor to obtain the understanding. (approved text below)

<sup>10</sup> ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

44A. In applying ISA 240 (Revised), the group auditor shall take responsibility for obtaining an understanding of identified fraud or suspected fraud, including fraud or suspected fraud identified by the component auditor.

45. The group auditor shall request the component auditor to communicate matters relevant to the group auditor's conclusion with regard to the group audit. Such communication shall include: (Ref: Para. A144) ...

(h) Fraud or suspected fraud involving:

- (i) Component management,
- (ii) Employees who have significant roles in the group's system of internal control at the component; or
- (iii) Others, except for matters that are clearly inconsequential to the component financial information;

30. XRB staff are supportive of these changes.

#### **Question for the NZAuASB**

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

#### **Cost/benefit considerations**

31. High quality audits contribute to the efficiency of capital markets and financial stability. The public interest is best served when participants in the financial reporting system have confidence in audits of financial statements.
32. Corporate failures and scandals across the globe in recent years have brought the topic of fraud to the forefront and led to questions from stakeholders about the role and responsibilities of the auditor relating to fraud in an audit of financial statements.
33. Fraud (along with going concern) is an area of focus for the FMA in its audit quality monitoring (refer [FMA's 2024 audit quality monitoring report](#), pages 11-14). The FMA notes that a common theme in both going concern and fraud issues is the gap between what users of financial statements expect from auditors, and what auditors are required to do in accordance with the Auditing Standards.
34. The revised fraud standard aims, in part, to bridge this gap by:
  - (a) Clarifying the role and responsibilities of the auditor for fraud in an audit of financial statements. The revised standard is clear that the auditor has a responsibility to identify material misstatement due to fraud;
  - (b) Strengthening the auditor's risk assessment procedures by applying a "fraud lens" and reinforcing the appropriate exercise of professional scepticism in fraud-related procedures; and
  - (c) Enhancing transparency to users of the report about fraud-related matters where appropriate.
35. Staff discussed the costs associated with implementing the revised standard with the Audit Technical Reference Group. Some pilot testing is underway. Reference group members indicated there would be an increase in cost given the more in-depth risk assessment, and new requirements for documentation.

36. Adoption of ISA 240 (Revised) is in line with the [Policy and Process for International Conformance and Harmonisation of Standards](#).
37. Staff recommend that the NZAuASB adopt the IAASB approved standard, subject to PIOB certification.

**Question for the NZAuASB**

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

# GHG Assurance Snapshot

## First year of climate statements

### 242 climate statements reviewed

Snapshot 9.1 a

We reviewed 242 climate statements, 78 of them include references to the assurance of GHG emissions:

- 28 climate reporting entities received assurance over their full GHG emissions disclosures included in their climate statements and 5 of the assurance reports referenced NZ SAE 1.
- 6 climate reporting entities had assurance over some information related to their GHG emissions assured (mainly selected metrics relating to scope 1 and scope 2).
- 44 entities included information that their GHG inventories were assured. An inventory report is not required by New Zealand climate standards. The GHG emissions disclosures included in climate statements of these entities were not subject to assurance.

# Assurance over GHG disclosures in climate statements

28 climate statements included assurance over GHG emissions disclosures

## **Who performed the assurance:**

- 19 entities engaged financial statement auditor
- 4 entities engaged other accounting firm
- 5 entities engaged other assurance provider

## **What standards were used:**

- 26 entities - standard ISAE (NZ) 3410
- 2 entities - standard ISO 14064-3:2019

## **What level of assurance is provided:**

- 2 entities - reasonable assurance
- 21 entities - limited assurance
- 5 entities - mixed assurance

## **What scope was reported**

- 12 entities - scope 1, 2 and all scope 3 emissions
- 13 entities - scope 1 and 2 and selected scope 3 emissions
- 3 entities - scope 1 and 2 only

## **What emissions were assured**

- 12 entities - scope 1, 2 and all scope 3 emissions
- 12 entities - scope 1 and 2 and selected scope 3 emissions
- 4 entities - scope 1 and 2 only

## **What communication tools were included in the assurance report:**

- 1 assurance report included a Key Matter
- 11 assurance reports included Emphasis of Matter
- 6 assurance reports included Other Matters
- 1 assurance report included qualification



# Assurance over GHG disclosures in climate statements

5 GHG emissions disclosures was assured in accordance with NZ SAE 1

## Who performed the assurance:

- 1 entity engaged financial statement auditor
- 4 entities engaged other assurance provider

## What standards were used:

- 3 entities - standard ISAE (NZ) 3410
- 2 entities - standard ISO 14064-3:2019

## What level of assurance is provided:

- 2 entities - reasonable assurance
- 1 entity - limited assurance
- 2 entities - mixed assurance

## What scope was reported

- 2 entity - scope 1, 2 and all scope 3 emissions
- 1 entity - scope 1 and 2 and selected scope 3 emissions
- 2 entities - scope 1 and 2 only

## What emissions were assured

- 2 entity - scope 1, 2 and all scope 3 emissions
- 1 entity - scope 1 and 2 and selected scope 3 emissions
- 2 entities - scope 1 and 2 only

## What communication tools were included in assurance report:

- 1 assurance report included Key Matter
- 2 assurance reports included Emphasis of Matter
- 3 assurance report included Other Matters

# 44 entities had assurance only over their GHG Inventory Report

Based on information included in climate statements, we were able to collect the following data on the assurance of GHG inventories of climate reporting entities:

## Who performed the assurance:

14 entities engaged statutory auditor  
30 entities engaged other assurance practitioner (not an accounting firm)

## What standards were used:

14 entities - standard ISAE (NZ) 3410  
21 entities - standard ISO 14064:3-2019  
9 entities - not clear

## What level of assurance is provided:

10 entities - reasonable assurance  
8 entities - limited assurance  
22 entities - mixed assurance  
4 entities - not clear

## What scope was reported

23 entities - scope 1, 2 and all scope 3 emissions  
14 entity - scope 1 and 2 and selected scope 3 emissions  
7 entities - scope 1 and 2 only

## What emissions were assured

19 entities - scope 1, 2 and full scope 3 emissions  
17 entities - scope 1 and 2 and selected scope 3 emissions  
4 entities - only scope 1 and 2  
4 entities - scope not clear

## What communication tools were included in assurance report:

9 assurance reports included Emphasis of Matter  
5 assurance reports included Other Matters  
1 assurance report included qualification

# Communication from assurance practitioners

## **Basis for qualified assurance opinion:**

- lack of access to third party provider to obtain sufficient evidence regarding scope 3 emissions
- disclosures heavily assumptions based, using dollar spend data and industry averages.

## **Emphasis of Matter related to:**

- limitations relating to using third party data providers by climate related entities
- operational control approach
- old emissions factors applied by entity
- consolidation approach different from financial statement consolidation
- uncertainty of calculation methodology
- use of spend based emissions factors for some Scope 3 emissions
- use of industry average factors for some Scope 3 emissions
- change in the base year reporting period
- emission intensity calculations based on pre-audit revenue figures
- part of expenses not included in the calculations of emissions.

## **Other matters:**

- disclosures are based on calculations using the latest emissions factors published by the MfE
- prior years not restated although the reporting boundary has been extended
- prior years not assured or assured by different assurance provider.

## **Key Matters:**

- “Staff commuting is a new emissions source reported in FY24 and represents 50% of total emissions.”

## NZAuASB Board Meeting Summary Paper

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**Meeting date:** 9 April 2025  
**Subject:** IESBA Collective Investment Vehicle Project Update  
**Date:** 24 March 2025  
**Prepared By:** Karen Tipper

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☐ **Action Required**

☒ **For Information Purposes Only**

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### Agenda Item Objectives

1. The Objective of this agenda is to:
  - a. UPDATE the Board about the IESBA's collective investment vehicle consultation project;
  - b. AGREE whether the XRB should respond to the IESBA's consultation; and
  - c. If yes, DISCUSS the potential outreach approach.

### Background

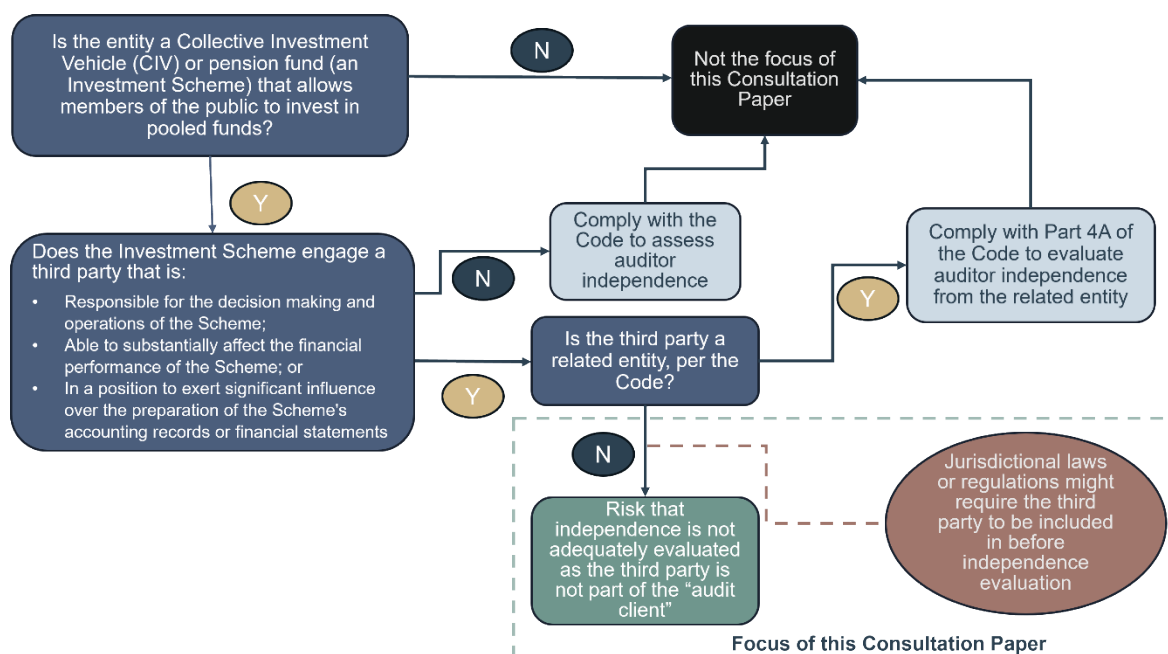
2. The IESBA approved a consultation paper to obtain feedback from stakeholders about the independence considerations for audits of collective investment vehicles (CIVs) and pension funds (referred to collectively as investment schemes) at the March 2025 meeting.
3. The consultation paper focusses on those investment schemes that are accessible to the general public due to the higher potential risks of financial harm that these may pose to the public in the case of an audit failure. The IESBA has noted interest from stakeholders due to the amount of money invested in these investment schemes.
4. Investment schemes typically have limited employees and use "unrelated third parties" to carry out services that would be carried out by in-house personnel in a typical operating company. These third-party services may range from routine services such as bookkeeping services to services with significant responsibilities for the schemes policies and operations including making investment decisions and managing financial records.
5. There is an argument that unrelated third parties are performing responsibilities for investment schemes that are similar to those carried out by in-house management (in a normal operating structure) and therefore these unrelated parties should be included in the auditor's independence assessment.

### Outline of issues explored by the IESBA

6. The IESBA project team has noted that the definition of "Related Entity" and "Audit Client" in the IESBA Code might not capture "unrelated third parties" that carry out significant management responsibilities or that have the ability to exert substantial influence over an investment scheme's accounting records or financial statements as the relationship between these entities lacks the element of control or significant influence with respect to the investment scheme.
7. The focus of the consultation paper is for the IESBA to gain a comprehensive understanding of the relationships between investment schemes and their trustees, management and advisors to

be able to determine whether the independence provisions in the IESBA Code adequately address the independence implications arising from those relationships.

8. The following flowchart depicts the potential gap in the extant Code with respect to investment schemes<sup>1</sup>:



9. As shown in the flowchart, the IESBA Code's definitions of related entity and audit client are the definitions that determine the independence from the audit client. If a third party is not a related entity under the Code, it may not be included in the auditor's assessment of independence. The related entity definition includes an element of control over the client:
10. In New Zealand, under the Professional and Ethical Standards 1<sup>2</sup>, entities with a higher level of public accountability ([FMC HLPAs](#)), as defined by the Financial Markets Conduct Act 2013, are treated as PIEs and are therefore subject to stricter independence requirements. These FMA HLPAs include managers of restricted schemes and licensed Managed Investment Scheme (MIS) managers for the financial statements of the scheme and MIS they manage.
11. If third party services are not provided by a related entity, section 120 of the IESBA Code applies. This is the conceptual framework that requires an assurance practitioner to evaluate and address threats to compliance with the fundamental principles of the IESBA Code. This approach may allow for inconsistent interpretation in these types of assurance engagements as it does not explicitly include provisions for assessing independence from unrelated third parties that substantially impact an audit clients' financial operations. There is a risk that potential threats to independence may not be identified when auditing investment schemes that are serviced by an

<sup>1</sup> Draft Collective Investment Vehicle consultation paper, IESBA, March 2025

<sup>2</sup> <https://standards.xrb.govt.nz/standards-navigator/pes-1/#1>

unrelated third party that is responsible for decision making and operation of the scheme or able to substantially impact the scheme.

12. The IESBA's questions in the consultation paper seek to obtain information about whether the application of the framework in the IESBA Code is sufficient to address unrelated third parties or whether more should be included.

### **Matters to Consider**

13. This project is included in the NZAuASB's 2024/25 workplan and has been identified as a low priority project. Staff recommend that the XRB respond to this consultation paper because this could be relevant to New Zealand given differing investment scheme structures. It is important for us to consult with those who may be impacted by any proposals.
14. Consistent with the priority level, and given this is a consultation limited to investment schemes, staff recommend a targeted approach to this consultation. We propose:
  - a. Publishing the consultation paper on the XRB's website.
  - b. Desktop research to understand the investment scheme structures in existence in New Zealand.
  - c. Targeted conversations with firms and regulators with a background of investment scheme auditing.
  - d. Awareness raising in our April need-to-know webinar.
15. As part of the New Zealand consultation, staff seek to better understand:
  - a. Whether investment scheme structures exist in New Zealand where unrelated parties to these schemes would not be captured in the auditor's assessment of independence. This may include trustees, managers and advisors, and
  - b. who these unrelated parties would be, or
  - c. where managers of the scheme would not be treated as an FMC HLP entity and would be treated differently for independence purposes.
16. Feedback is due 90 days after the consultation paper is issued by the IESBA and this will inform the IESBA as it considers whether any revisions are required to the IESBA Code to ensure that it addresses auditor independence for investment schemes.

### **Recommendations**

17. Staff recommend:
  - a. responding to this consultation to inform the IESBA of New Zealand considerations, and
  - b. bringing a draft submission for approval to the June 2025 meeting

### **Material Presented**

Agenda item

Board Meeting Summary Paper

## Appendix 1 – Definitions

### **Related Entity**<sup>3</sup>

*An entity that has any of the following relationships with the client:*

- a) An entity that has direct or indirect control over the client if the client is material to such entity;*
- b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;*
- c) An entity over which the client has direct or indirect control;*
- d) An entity in which the client, or an entity related to the client under*
- e) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and*
- f) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.*

### **Audit Client**

From the IESBA Code: An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.20.)

*In Part 4A, the term “audit client” applies equally to “review client.”*

*In the case of a group audit, see the definition of group audit client.*

### **Audit Client**

From PES 1<sup>4</sup> (NZ): An entity in respect of which a firm conducts an audit engagement. When the client is a FMC reporting entity considered to have a higher level of public accountability, audit client will always include its related entities. When the audit client is not a FMC reporting entity considered to have a higher level of public accountability, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.27.)

*In Part 4A, the term “audit client” applies equally to “review client”.*

*In the case of a group audit, see the definition of group audit client*

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<sup>3</sup> <https://standards.xrb.govt.nz/standards-navigator/pes-1/Glossary>

<sup>4</sup> Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)



## NZAuASB Board Meeting Summary Paper

**Meeting date:** 9 April 2025  
**Subject:** Service Performance Information assurance guidance  
**Date:** 25 March 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 developing draft guidance on obtaining audit evidence over service performance information.

### Background

2. In February 2025, the NZAuASB provided feedback on initial draft guidance. Feedback included:
  - a. Support for developing case studies to include an appropriate and meaningful mix of service performance measures that focus on outputs and outcomes, not inputs. The importance of a good example was emphasised.
  - b. The role of risk assessment and materiality considerations being included to reflect the extent of procedures required.
  - c. The use of questions to prompt the practitioner to identify sources of evidence.

### Matters to Consider

3. Feedback from the NZAuASB has been incorporated into the latest draft, dealing with attendance at an event. Work has progressed on two more scenarios being:
  - a. the delivery of a service to demonstrate gathering evidence over more qualitative information, privacy and attribution
  - b. delivery of a good to cover internal controls, sampling and other sources of evidence.
4. As this is staff guidance, we are not seeking approval from the NZAuASB, rather feedback on the usefulness and clarity of the draft. We aim to issue the guidance, covering all three scenarios, as a package, as quickly as possible, however have prioritised work on the discussion paper in the first instance.

### Recommendations

We recommend that the Board provides FEEDBACK on the draft guidance attached in a separate agenda paper.



## 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 auditor's 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, recognising 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 over service performance information will vary and may come from different sources compared to evidence for financial information. 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 beyond traditional financial reporting systems, invoices and confirmations, and challenge themselves to identify alternative sources not normally used when auditing financial information.

Whilst we can't answer "when is enough, 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 in gathering sufficient and appropriate audit evidence:

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.

*This example of attendance at an event illustrates considerations relating to internal controls, external evidence and other sources of evidence*

## Fact Pattern

Vision: to help families to not feel isolated by walking alongside and supporting families in their journey when a family member is diagnosed with x and advance improvements to x care.

Strategic themes:

1. Excellence in our practice – provide practical support to families at all stages of the x journey
2. Powerful partnerships – provide peer-to-peer support
3. Knowledge Creation and Knowledge transfer – fund research and provide policy advice
4. Developing our Assets – develop and maintain infrastructure to support families

The organisation has a set of output indicators for each strategic theme. This example focuses on the strategic theme of Powerful partnerships – provide peer to peer support.

### Output indicators – peer-to-peer support

Measurement	20XX	20X0
Number of families supported via Connections groups	957	812
Number of families engaged in Connections events	512	498

- **Number of families supported via Connections groups:** families\* that have signed up to receive peer-to-peer support via Connections Groups
- **Number of families engaged in Connections events:** number of families\* that have attended events/activities

\* One or more family members is measured as one family.

Connection groups are a peer-support approach with the purpose of connecting families through shared experiences with others in their community. When a family expresses to their local support coordinator that they are ready to meet and connect with other families in their regions, they register with and join their local Connections Group.

Joining a Connections group gives these families the opportunity to participate in social events throughout the year which are planned and delivered by the local Connections Committee. Some of these events include family events, parent evenings, bereaved parent events and a Halloween party.

Connections groups are run by volunteers who are mostly family members who have been through their own journeys.

The objective of the Connections group peer-support approach is that families find a connection and support with others through a lived, shared experience. x diagnosis can often be an isolating journey for families, co creating a safe space for these families to come together through Connections groups to share experiences and offer support to one another with a mutual understanding can be both healing and powerful.

#### **Case study – Paul**

After my wife received her diagnosis, it felt like our family was in this bubble having to face the challenges ahead alone. Although our extended family and friends were great, it was hard for them to really understand what our family was going through.

Since being contacted by Jeff our local support coordinator, we have attended a number of events for both my wife and I and also for the whole family. Having the opportunity to speak with other

families going through a similar experience in a relaxed friendly environment, has made us feel more supported and not alone in the journey we were facing.

*Note, this qualitative measure is not discussed in this guidance. Please see example 2, for an illustrative example of obtaining evidence over qualitative service performance information.*

### *Assessment of appropriate and meaningful*

As part of obtaining an understanding of the entity, the auditor obtains an understanding of the process the entity used to determine what and how to report its service performance information. This information is used to obtain evidence on whether the service performance information is appropriate and meaningful. The auditor needs to first evaluate whether the information is appropriate and meaningful before obtaining evidence on whether the service performance information materially reflects actual performance. The auditor may have a meeting with management of the entity and make enquires in areas such as:

- What does management consider to be the purpose of the organisation?
- How did management decide that the performance measures selected are the most significant and relevant areas to report on?
- Were any other areas considered to report on but rejected? If so, why?
- Why did the entity determine these elements to be the most significant?
- How did you determine the measurement bases/evaluation methods?
- Are there any other measurement bases you could have used but didn't. Why?
- How did you identify users?
- Were any other user groups identified? If so, why were they rejected?
- Was the identified user group consulted in what SPI they would like to be reported for decision making and accountability purposes?
- Are the performance measures selected used in your internal management reporting? If not, why not?
- Do you perform any periodic monitoring of the reported measures?
- What controls are in place to ensure that the information reported is complete and accurate?
- What records do you keep so that the information is reliable?

The auditor then uses other sources of evidence and their knowledge of the entity to corroborate management responses for example:

- a copy of the strategic plan
- the entity's constitution, rules or trust deed
- entity's public website
- funding agreements
- internal management service performance reporting
- minutes from board meetings
- charities register
- media reports

In applying professional judgement to the evidence obtained the auditor evaluates whether the service performance information reported is appropriate and meaningful, assessing how well the entity has balanced the qualitative characteristics and pervasive constraints. In particular, the auditor notes:

- The performance measures are relevant, as there are clear and logical links between the elements/aspects being reported and the entity's overall purpose

- Likely to meet the needs of the intended users in that the information includes measures in the entity's funding agreements. Reporting obligations to the funder are met using the general purpose financial statements rather than special purpose reporting.
- Reflects how the entity assesses its service performance for the purpose of internal decision making, for example, the performance measures are included in monthly management reporting including an analysis of the measures.
- Potential for management bias is low due to the performance measures being required by funding agreements.
- From the auditor's understanding of the process the performance measures are likely to be verifiable, and be capable of being measured in a consistent manner
- The information presented was concise and focused on the main points of the entity's service performance for the year.

### *Materiality*

Using the information obtained in understanding the entity and its service performance information process the auditor applies professional judgement and considers which elements/aspects of service performance are important to intended users. Having identified those, the auditor then considers what are the material performance measures and the tolerance for misstatement in those material service performance measures. Understanding which elements of service performance is important to users is used to focus the auditor's efforts.

Materiality considerations may include:

- How the performance measure relates to the primary purpose of the entity. The more important the activity to achieving the entity's service performance objectives, the more material the measure may be, and the less tolerance for misstatement.
- How much prominence the performance measure has in the overall presentation of the service performance reporting. The more prominence, the more material the measure may be. The auditor may be less tolerant of misstatement in information given the most prominence.
- The number of people affected. The more people affected, the more material the measure may be.
- Whether there is a target to achieve, for example in a funding agreement. Where a target has only just been achieved, the less tolerance for misstatement.

The auditor applies materiality considerations to determine the nature, timing and extent of procedures and for evaluating any misstatements in the information identified.

The auditor determines that strategic pillar 2 is one of the important elements of service performance to users due to its close connection to the purpose of the entity to support families with a family member diagnosed with X and that a material performance measures for that pillar the number of families engaged in Connections events.

### *Risk Considerations to determine what evidence is needed*

What could go wrong for the service performance measures not to be properly measured or evaluated?	<p>When considering the accuracy of the information this may include for example:</p> <ul style="list-style-type: none"> <li>• The number of families at an event may not be counted accurately</li> <li>• The entity may have insufficient records to verify the accuracy of the information</li> </ul>
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	<ul style="list-style-type: none"> <li>The event may not have occurred.</li> </ul>
What may cause a potential misstatement?	<p>Examples may include:</p> <ul style="list-style-type: none"> <li>Families could attend the event without being counted</li> <li>Families could register for an event but not turn up</li> <li>Families could be double counted as being engaged when attending multiple events</li> </ul>
How precise does the evidence need to be?	<p>The auditor may consider:</p> <ul style="list-style-type: none"> <li>Whether there is any estimation uncertainty in the measurement of the performance measure or is the information capable of being measured accurately?</li> <li>How material is the performance measure to users, for example, is an exact number of families support to users important or within say 10% is ok?</li> </ul>

The auditor assesses the likelihood and magnitude of the inherent risks identified as moderate based on the characteristics of the events held. This assessment is then used to inform the design of further audit procedures to address the risks identified.

#### *Sources of evidence*

The auditor may ask the entity the following questions to determine what information sources are available:

- How do you determine the number of families that attend each event?
- Is it a different system for each event or location?
- What records do you keep from each event held to record the number of families who attended?
- Are there any records of the events from external parties?

The auditor learns that depending on the type of event different records are maintained. Group events for specific family members take place indoors, such as community centres or local coffee shop, and a sign-in sheet is used to record who attends. The volunteer who runs the group are asked to check during the event that all attendees have signed in.

For larger family events such as the annual Halloween party, families are asked to register. These registrations are collected and maintained on a registration platform. For the annual Halloween party, a \$25 voucher is given to each family when they arrive to use at the food truck. When these are provided, the family is marked off on a print out of the summary of registrations. Following the event, the food truck invoices the entity for the value of the number of vouchers collected. The vouchers are sent back with the invoice. The entity then checks this against the registration summary.

For other events, that do not require registration, such as the family picnic day out, a raffle ticket is provided to each family when they arrive to go in the draw for prizes throughout the day. Raffle tickets stubs record the name of the family member to help with ensuring prizes are collected by the correct family. Following each event, volunteers record the family names of those who attended from the stubs. This process is carried out, to both record attendance numbers and so that volunteers know which families have not been making regular connections with the entity to be followed up.

*Considerations when designing and performing procedures to obtain sufficient appropriate evidence*

In considering the reliability of the sources of information identified, the auditor may ask management of the entity:

- How do you get comfort that the information is complete and accurate?
- Are there any documented internal reviews performed on the information?
- Is the same process applied across all similar events and locations?
- Is this information shared with board? What questions do they ask about the information?
- Have any errors been detected. If so what, and how were they picked up?

The auditor will consider what each procedure needs to achieve and whether the information sources available are relevant for the purpose of the test. For example, the raffle ticket stubs with family details may be a relevant source to record accuracy and occurrence but would not be relevant for completeness.

The auditor may also consider how much evidence will be obtained from procedures over the various sources of evidence. In some instances, procedures over several sources may be required to obtain sufficient evidence.

The auditor has determined the following procedures:

*Specific family member events*

1. Obtain a copy of the spreadsheet that is used to collate the date of the event, and the number of attendees
2. Select a sample of events from the population based on population size and risk.
3. For each sample:
  - a. Add up the number of family's names on the sign-in sheet
  - b. Agree the number of people on the sign-in sheet to the summary spreadsheet of events

*Annual Halloween event*

1. Obtain an understanding of the registration platform used to collect registrations. Enter a registration for a future event to be held and trace through to the summary.
2. Obtain a copy of the registration summary from the registration platform for the Halloween event.
3. Count how many names had been crossed off the list indicating that food tickets had been issued.
4. Perform an analytical procedure of the food voucher invoice to the number from procedure #3. Investigate any differences above the tolerable thresholds.

*Other events*

1. Obtain a copy of the spreadsheet that is used to collate the number of families that attended at each event.
2. For each event, select a sample of family names haphazardly from the list.
3. Obtain the raffle stubs and agree to the sample of names from the spreadsheet.



## NZAuASB Board Meeting Summary Paper

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**Meeting date:** 9 April 2025  
**Subject:** Update to EG Au8  
**Date:** 27 March 2025  
**Prepared By:** Misha Pieters/Rajen Pillay


**Action Required**

**For Information Purposes Only**

### Agenda Item Objectives

1. The Objective of this agenda item is to UPDATE the NZAuASB on a joint project to update guidance on *Audit Implications of the Use of Service Organisations for Investment Management Services*.

### Background

2. The AUASB has progressed work to revise Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* (Australian version). In February, the NZAuASB expressed an interest, given the XRB has issued equivalent guidance EG Au8 *Audit Implications of the Use of Service Organisations for Investment Management Services*.
3. The AUASB and XRB staff teams have worked together to identify appropriate members to participate in a joint project advisory group (PAG). The group will be chaired by AUASB Board member Klynton Hankin and will include members from the big four and Grant Thornton. Two New Zealand firms nominated members, including from KPMG and PWC. Others commented that their firms would be better represented by the Australian nominated members. AUASB staff and XRB staff will work together to respectively update the guidance for Australia and New Zealand.
4. The PAG will hold its first meeting in early April.
5. Both the NZAuASB and the AUASB will be asked to approve a project plan following further input from the PAG.

### Matters to consider

6. The scope of the proposed project will cover:
  - reporting that financial statement auditors' user entities should expect from auditors of service organisations that provide investment management or custodian services to the user entity;
  - how the auditor of the user entity should use reports from the service organisation auditor.
7. It is proposed to exclude reporting for assurance over information in sustainability reports.
8. Possible issues that will be addressed through the project are identified in the appendix. These may change following PAG discussions, and any further ideas from NZAuASB members are welcome.

**Appendix:**

This is a preliminary list and PAG members can add any other issues to facilitate discussions and to inform the scope of the project.

*Primary focus areas:*

1. Subservice organisations and the inconsistent application of the standard in relation to the inclusive *versus* carve out methods. Carve out is not always sensible (e.g. IT) and impacts the user auditor.
2. Gaps in time periods between service organisation and subservice organisation reporting.
3. Clarity on requirements for evidencing the extent of testing (including IT dependencies) over completeness and accuracy of the population.

*Other areas of challenge:*

4. Limitations on user auditor access to subservice organisations (including downstream) and impacts of CPS 230<sup>1</sup> requirements.
5. Are control objectives set at too high a level leading to inconsistency in interpretation - do they need to be more specific (e.g., details of precision of review controls)?
6. Use of emphasis of matter when controls exist but have not operated for majority of controls included in the control objective i.e. no instance of the control was required within the period.
7. Clarity on the approach to sample sizes in reports and reference the frequency of each control?
8. Expectations on interaction between user auditor and service auditor having regard to report content?
9. Extending guidance to cover more than financial statement related controls for e.g. tax governance, sustainability and operational resilience.

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<sup>1</sup> Prudential Standard CPS 230, Operational Risk Management