New Zealand Auditing and Assurance Standards Board

MEETING PACK

for

NZAuASB Board Meeting - SUPPLEMENTARY

Wednesday, 3 December 2025

10:00 am (NZDT)

Held at:

XRB Boardroom

Level 6, 154 Featherston Street, Wellington

Generated: 2025-11-26 16:22:28

INDEX

Cover Page

Index

Agenda

Attached Documents:

2.6 a	2.6 SAC Meeting Highlights October 2025.pdf	9
2.7 a	2.7 IESBA_PII_October_2025.pdf	13
2.8 a	2.8 IAASB_PII_October_2025.pdf	26
3.4 a	3.4 ISA (NZ) 320 version 2025.docx	38
3.5 a	3.5 ISA (NZ) 402 version 2025.docx	52
3.6 a	3.6 ISA (NZ) 501 version 2025.docx	77
3.7 a	3.7 ISA (NZ) 520 version 2025.docx	97
3.8 a	3.8 ISA (NZ) 620 version 2025.docx	110
4.3 a	4.3 Accountability submission.pdf	132
4.3 b	4.3 CA_ANZ_submission_sustainability_assurance_and_ethics (for record).pdf	138
4.3 c	4.3 CPAA-submission_XRB_Sustainability-Assurance-and-Ethics-Alignment-with-Interna	147
4.3 d	4.3 Deloitte Submission Alignment with international standards_2025.pdf	153
4.3 e	4.3 EY Response - Consultation on ISSA (NZ) 5000 and IESSA (NZ).pdf	159
4.3 f	4.3 KPMG submission International Alignment consultation 9 Oct 2025.pdf	162
4.3 g	4.3 McGuinness Institute Submission on International alignment consultation (Final Draft	167
4.3 h	4.3 OAG submission consultation document_10102025.pdf	197
4.3 i	4.3 PwC-submission_International-alignment-consultation (1).pdf	199
4.3 j	4.3 Toitu reponse to XRB consultation Oct 2025.pdf	206
4.4 a	4.4 ISSA (NZ) 5000 (2025).pdf	211
4.5 a	4.5 PES 1 (NEW 2025).pdf	401
4.6 a	4.6 Amendments resulting from the issue of ISSA (NZ) 5000.pdf	879

—Continued—

7.2 a 7.2 GS_007_2025_showing markup up to PAG meeting #6.docx..... 890

AGENDA

NZAUASB BOARD MEETING - SUPPLEMENTARY

Name:	New Zealand Auditing and Assurance Standards Board
Date:	Wednesday, 3 December 2025
Time:	10:00 am to 4:45 pm (NZDT)
Location:	XRB Boardroom, Level 6, 154 Featherston Street, Wellington
Committee Members:	Graeme Pinfold (Committee Chair), Darby Healey, Doug Niven, Michael Bradbury, Rebecca Palmer, Richard Kirkland, Todd Beardsworth, Vasana Vanpraseuth
Attendees:	Anna Herlender, Bruce Mcniven, Karen Griffin, Karen Tipper, Lisa Thomas, Misha Pieters, Sharon Walker, Thinus Peyper, Wendy Venter

1. Opening Meeting (PRIVATE)

2. Board Management (PUBLIC)

2.1 Action list — 10:00 am (5 min)

For Noting

2.2 Chair report — 10:05 am (5 min)

Graeme Pinfold

For Noting

Verbal

2.3 AUASB Update — 10:10 am (5 min)

Doug Niven

For Noting

Verbal

2.4 Chief executive update — 10:15 am (5 min)

Wendy Venter

For Noting

Verbal

2.5 JSS report — 10:20 am (5 min)

For Noting

2.6 SAC meeting highlights (SUPPLEMENTARY) — 10:25 am (3 min)

For Noting

Supporting Documents:

2.6.a	2.6 SAC Meeting Highlights October 2025.pdf	9

Powered by **BoardPro**

2.7 PIOB public interest IAASB Oct (SUPPLEMENTARY) 10:28 am (1 min)

For Noting

Supporting Documents:

2.7.a	2.7 IESBA_PII_October_2025.pdf	13

2.8 PIOB public interest IESBA Oct (SUPPLEMENTARY) 10:29 am (1 min)

For Noting

Supporting Documents:

2.8.a	2.8 IAASB_PII_October_2025.pdf	26

3. Revocation and reissue of ISAs (NZ) (PUBLIC)

3.1 Summary paper 10:30 am (5 min)

Anna Herlender

For Noting

3.2 Signing memorandum 10:35 am (5 min)

For Decision

3.3 Explanation for decisions made 10:40 am (5 min)

For Decision

3.4 ISA (NZ) 320 (SUPPLEMENTARY) 10:45 am (5 min)

For Decision

Supporting Documents:

3.4.a	3.4 ISA (NZ) 320 version 2025.docx	38

3.5 ISA (NZ) 402 (SUPPLEMENTARY) 10:50 am (5 min)

For Decision

Supporting Documents:

3.5.a	3.5 ISA (NZ) 402 version 2025.docx	52

3.6 ISA (NZ) 501 (SUPPLEMENTARY) 10:55 am (5 min)

For Decision

Supporting Documents:

3.6.a	3.6 ISA (NZ) 501 version 2025.docx	77

3.7 ISA (NZ) 520 (SUPPLEMENTARY) 11:00 am (5 min)

For Decision

Supporting Documents:

3.7.a	3.7 ISA (NZ) 520 version 2025.docx	97

3.8 ISA (NZ) 620 (SUPPLEMENTARY) 11:05 am (10 min)

For Decision

Supporting Documents:

3.8.a	3.8 ISA (NZ) 620 version 2025.docx	110

3.9 Morning Tea 11:15 am (15 min)

4. International alignment sustainability ethics and use of external experts (PUBLIC)

4.1 Summary paper 11:30 am (10 min)

Karen Tipper

4.2 Analysis of feedback received and issues 11:40 am (10 min)

4.3 Submissions received (SUPPLEMENTARY) 11:50 am (5 min)

For Noting

Supporting Documents:

4.3.a	4.3 Accountability submission.pdf	132
4.3.b	4.3 CA_ANZ_submission_sustainability_assurance_and_ethics (for record).pdf	138
4.3.c	4.3 CPAA-submission_XRB_Sustainability-Assurance-and-Ethics-Alignment-with-International (1).pdf	147
4.3.d	4.3 Deloitte Submission Alignment with international standards_2025.pdf	153
4.3.e	4.3 EY Response - Consultation on ISSA (NZ) 5000 and IESSA (NZ).pdf	159
4.3.f	4.3 KPMG submission International Alignment consultation 9 Oct 2025.pdf	162
4.3.g	4.3 McGuinness Institute Submission on International alignment consultation (Final Draft).pdf	167
4.3.h	4.3 OAG submission consultation document_10102025.pdf	197
4.3.i	4.3 PwC-submission_International-alignment-consultation (1).pdf	199
4.3.j	4.3 Toitu reponse to XRB consultation Oct 2025.pdf	206

4.4 ISSA (NZ) 5000 (SUPPLEMENTARY) 11:55 am (20 min)

Karen Tipper

For Decision

Supporting Documents:

4.4.a	4.4 ISSA (NZ) 5000 (2025).pdf	211

4.5 PES 1 including IESSA (NZ) and use of external experts (SUPPLEMENTARY) 12:15 pm (20 min)

Bruce Mcniven

For Decision

Supporting Documents:

4.5.a	4.5 PES 1 (NEW 2025).pdf	401

4.6 Amendments arising from the issue of ISSA (NZ) 5000 (SUPPLEMENTARY) 12:35 pm (20 min)

Karen Tipper

For Decision

Supporting Documents:

4.6.a	4.6 Amendments resulting from the issue of ISSA (NZ) 5000.pdf	879

4.7 Signing memorandum 12:55 pm (15 min)

Karen Tipper

For Decision

4.8 GHG snapshot to June 2025 1:10 pm (20 min)

Anna Herlender

For Noting

4.9 Lunch 1:30 pm (45 min)

5. NZAuASB work plan (PUBLIC)

5.1 Summary paper 2:15 pm (5 min)

Misha Pieters

5.2 Assurance portfolio 2:20 pm (10 min)

For Noting

5.3 Forward agenda 2:30 pm (10 min)

For Noting

5.4 Consultation plan 2:40 pm (5 min)

For Noting

6. Narrow scope amendments use of external experts (PUBLIC)

6.1 Summary paper 2:45 pm (15 min)

Anna Herlender

7. EG AU8 in conjunction with AUASB (PUBLIC)

7.1 Summary paper

3:00 pm (25 min)

Thinus Peyper

For Discussion

7.2 GS 007 2025 showing (SUPPLEMENTARY)

3:25 pm (5 min)

Thinus Peyper

For Noting

Supporting Documents:

7.2.a	7.2 GS_007_2025_showing markup up to PAG meeting #6.docx	890

7.3 Afternoon tea

3:30 pm (15 min)

8. Audit findings and impact on standards (PUBLIC)

8.1 Summary paper

3:45 pm (30 min)

Thinus Peyper

For Noting

9. Technology (PUBLIC)

9.1 Update

4:15 pm (30 min)

Thinus Peyper

For Noting

10. Board Management (PRIVATE)

11. Close Meeting

11.1 Close the meeting

4:45 pm

For Noting

Next meeting: NZAuASB Board Meeting - PUBLIC - 3 Dec 2025, 10:00 am

Closing Karakia:

Kia hora te marino | May peace be widespread

Kia whakapapa pounamu te moana | May the sea be like greenstone

Hei huarahi mā tatou i te rangi | A pathway for us all this day

Aroha atu, aroha mai, tatou i a tatou katoa | Let us show compassion and respect for each other

Haumi e, hui e, tāiki e | Unified, connected and blessed

SAC MEETING HIGHLIGHTS

OCTOBER 2025

This summary of the Stakeholder Advisory Council (SAC) public session discussions on October 21–22, 2025 in New York has been prepared for information purposes only.

Recordings of the meeting are available on the IAASB YouTube and IESBA YouTube channels.

INTRODUCTION

Mr. Alan Johnson, SAC Chair, welcomed SAC members, the Chairs of the IAASB and IESBA (the standards-setting boards (SSBs)) and the Vice-Chair of IAASB, staff from the International Foundation for Ethics & Assurance (IFEA), official observers and public observers.

SESSION 1: DIALOGUE WITH THE STANDARD-SETTING BOARDS

The SAC was updated on developments since the May 2025 SAC meeting, including the progress on ongoing projects, the impact of SAC input on the SSBs work, the development of a joint-stakeholder survey for both SSBs' Strategy Work Plans for 2028–2031 and the revised strategic approach to IESBA's Firm Culture and Governance project.

Key Observations, Advice and Suggestions from the SAC

Standard Setting Work Plans

- The SSBs were commended for the progress on their respective workplans since the last SAC meeting. There was also support for the SSBs' decision not to issue any new major standards until the end of 2027. SAC members emphasized the importance of continuing to focus on post-implementation reviews, targeted implementation guidance, and outreach to promote consistent global application emphasized.
- The mandatory adoption of the sustainability assurance standards is advancing at different speeds but maintaining global interoperability must remain a core goal. The extensive implementation guidance and outreach accompanying ISSA 5000[1] was welcomed, and there was support for flexible, jurisdiction-sensitive adoption approaches. It was also noted that sustainability reporting and assurance continues to grow even though regulation is evolving more slowly.
- Other emerging areas, such as digital assets and other technology-specific topics, were identified as potential topics for further exploration by the SSBs.
- Recognizing there is an increased interest within investor community on sustainability reporting, members highlighted the importance of seeking investors input in the SSBs' sustainability standards and their other work were highlighted.
- Maintaining stability for the recently issued International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) is important as regular revisions could discourage jurisdictions to adopt the standard, particularly smaller jurisdictions.

[1] International Standard on Sustainability Assurance 5000, *General Requirements for Sustainability Assurance Engagements*.

Key Takeaways from the Multi-Stakeholder April 2025 IFAC–IESBA Summit in Paris (Paris Summit) and the September 2025 IESBA Conference in Lisbon (IESBA Ethics Conference)

- The Paris Summit reinforced the importance of coordinated standard-setting, transparency of due process, and effective global adoption of the new sustainability ethics and assurance standards. The IESBA Ethics Conference highlighted ethics and independence as pillars of trust and competitiveness in a changing market. IESBA was commended for holding a conference that brought together a diverse group of stakeholders to engage on key ethics topics, with a suggestion to consider holding future conferences to explore other important topics.

Joint-Stakeholder Survey for the SSBs' SWPs 2028–2031

- Members supported the SSBs' initiative to issue a joint survey as the first step in developing the IAASB's and IESBA's Strategy and Work Plan for 2028-2031. The SAC suggested to articulate a clear joint value proposition and noted that the survey should include topics where both SSBs have a role to play such as sustainability, technology and assurance of non-financial information. With respect to the questions asked, it was recommended to have different questions per stakeholder group, to balance open and closed questions.

IESBA's Firm Culture and Governance Project

- The IESBA's revised approach of re-sequencing its focus first on developing a series of principles-based viewpoints and other supporting materials as well as its outreach plan were welcomed. The importance of coordination with IAASB and the need to highlight linkages with ISQM 1 were also emphasized. Other comments raised include the adoption of the final products, consideration of root causes and importance of transparency and incentives.

SESSION 2: TECHNOLOGY AND THE IMPACT ON AUDIT, ASSURANCE AND ETHICS

The SAC discussed how emerging and increasingly complex technologies, particularly artificial intelligence (AI), are transforming the audit, assurance, and ethics landscape. The SSBs jointly presented on how both Boards are coordinating their efforts to ensure that their standards remain responsive, relevant and aligned with the public interest in a rapidly evolving environment.

Key Observations, Advice and Suggestions from the SAC

- It was noted that AI tools offer opportunities to enhance audit quality, efficiency and expand capabilities. These tools also pose ethical and professional judgment challenges. Maintaining accountability and objectivity remains crucial as professional accountants increasingly rely on AI-enabled tools. Therefore, it remains important for professional accountants to retain responsibility for outputs generated through such technologies and ensure that ethical behavior and human oversight are preserved. The SSBs were encouraged to develop additional timely guidance given the benefits it could have for stakeholders.
- There are growing expectations for professional accountants to establish robust governance and oversight frameworks addressing the acquisition, development and deployment of emerging technologies. Also, an ethical mindset and quality management systems are essential to safeguard trust and mitigate risks associated with bias, misinformation and over-reliance on "black box" models.

- There was support the SSBs continued collaboration in promoting consistent interpretation of existing quality management and ethics principles as they apply to new technologies. The SSBs were encouraged to consider issuing non-authoritative guidance to clarify how existing principles, such as those in ISQM 1[2] and the IESBA Code[3], should be applied to generative AI and other emerging tools.
- Proactive engagement by both SSBs is essential to prevent regulatory fragmentation, ensure coherent global approaches and support the responsible adoption of technology within the profession.
- Non-professional accountants (e.g. recruitment of technology specialists) impact the ethical culture and governance and blur the lines between audit, assurance and advisory, which may affect independence
- The importance of developing and strengthening certain skills, such as analytical reasoning and critical thinking, alongside the technical expertise necessary for the responsible use and interpretation of AI tools was emphasized. As technology's effectiveness is ultimately determined by user competence, both SSBs and the wider profession have a role to play as continuous training and education remain essential for professional accountants to sustain competence and confidence amidst technological advancements.

SESSION 3: REVIEWS OF INTERIM FINANCIAL INFORMATION BY THE ENTITY'S INDEPENDENT AUDITOR

The SAC was updated on the IAASB's project to revise ISRS 2410[4] and discussed the usefulness of interim financial information in the context of the financial reporting ecosystem and the maintenance of capital markets, and the differences between interim review engagements and audit engagements.

Key Observations, Advice and Suggestions from the SAC

The Use of Interim Financial Information

- Interim financial information is meaningful to users when it is relevant and reliable. That is, when it is timely, and when it contains complete and accurate information about significant events or conditions, especially that which may have a negative effect on investments. The timeliness of information is of most significance to users, who view more detailed and less timely information as less useful for decision-making. Also, users in some jurisdictions appeared reluctant to require enhanced work efforts by auditors if the enhanced work effort might result in delayed information.
- Users of interim financial information are particularly interested in areas that may indicate that there are risks to investors' returns. In that regard, users are particularly interested in matters outside of the entity's control (for instance, movements in foreign exchange or interest rates), and matters related to going concern, disclosures of significant events and transactions (such as acquisitions) and other qualitative disclosures.

---

2 International Standard on Quality Management (ISQM 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

3 The IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*

4 International Standards on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

- Some members encouraged the IAASB to develop principle-based requirements relating to specific topics in an interim review engagement, thereby encouraging auditors to use their professional judgment.

Differences Between Interim Review Engagements and Audit Engagements

- It was acknowledged that there is a lack of understanding of the difference between interim review engagements (limited assurance) and annual audit engagements (reasonable assurance) This is evidenced by:
    - Market reactions appear to be similar whether or not the interim financial information is subject to a review by the auditor. This implies that that the market places similar levels of trust in the information irrespective of the level of assurance provided.
    - The wide range of methodologies applied by practitioners within and between jurisdictions may indicate that auditors have different views about the scope of an interim review and the related work effort. This may also result in difficulties with enforcing the standard.
- The following contributing factors were identified to the lack of understanding of the difference between interim review engagements and annual audit engagements by users:
    - The look and feel of an auditor's report and an interim review report is similar. Despite the differences in the content of the reports, users of these reports may not sufficiently distinguish the engagements. In addition, the reports are signed by the same auditor.
    - The lack of clear, positive expression of the work performed in an interim review report. Users of these reports may understand that interim financial information is not audited but are unclear about what procedures the auditor has performed in the review compared to the audit.
- The confusion about the difference between limited and reasonable assurance may increase with the introduction and growth of sustainability reporting and assurance on sustainability information.
- The IAASB was encouraged to consider:
    - Enhancements to the interim review report in a manner that would clearly distinguish an interim review report from an audit report, such as including caveats for users or a description of the procedures performed in an interim review engagement.
    - Existing interim review standards in other jurisdictions when developing proposals for the revised standard, bearing in mind the benefits of international convergence.

Closing Remarks

Mr. Johnson invited Mr. Sullivan, the PIOB observer, to share his remarks from this observation of the meeting. He also invited Ms. Gabriela Figueiredo Dias and Mr. Tom Seidenstein to share any final remarks.

Mr. Johnson thanked all SAC members for their valuable contributions and insightful advice to the SSBs. He also extended his appreciation to the IFEA staff for their efforts in preparing the meeting papers and facilitating the discussions.

Next Meeting

The next SAC meeting is scheduled for April 27–28, 2026 in Madrid, Spain.

PIOB's Public Interest Issues - IESBA projects

(document updated as of October 2025)

The PIOB's Public Interest Issues presented in this document are based on the status of the IESBA´s projects after its September 2025 meeting and the PIOB meeting in October 2025. For each selected project, brief background information and project status are provided, followed by the identified Public Interest Issues. The Public Interest Issues may contain questions or concerns relating to the responsiveness of specific initiatives and projects to the public interest. We encourage the IESBA to consider these questions and concerns during the due process of developing the relevant standards.

For further information and details about the IESBA projects, please refer to the website: https://www.ethicsboard.org/consultations-projects.

CONTENTS

1. SUSTAINABILITY REPORTING AND ASSURANCE 2
1.1. Supporting implementation through monitoring and rapid response 3
1.2. Scope of new Part 5 and applicability of Part 4B of the Code 3
1.3. Strengthening NOCLAR communication 4
2. FIRM CULTURE AND GOVERNANCE 5
2.1. Achievement of behavioral changes as the ultimate goal of the project 6
2.2. Scope of the project 6
2.3. Approach to developing a Framework 7
2.4. Inter-operability with ISQM 1 8
3. COLLECTIVE INVESTMENT VEHICLES AND PENSION FUNDS 8
3.1. Incorporation of Collective Investment Vehicles and Pension Funds into the Code 9
4. PRIVATE EQUITY INVESTMENTS 10
4.1. Coordination between various projects 10
OTHER PUBLIC INTEREST ISSUES 11
5. Potential expansion of the scope of the Code of Ethics 11
6. Impact of technology on ethics and independence 12
7. Classification of assurance services and their impact on independence 12
8. Interoperability of ethics and audit: IESBA and IAASB coordination 13

Use of main acronyms

Code	The IESBA's Code of Ethics
ED	Exposure Draft
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IESSA	International Ethics Standards for Sustainability Assurance
ISA	International Auditing Standards
ISSA	International Standard on Sustainability Assurance
PIOB	Public Interest Oversight Board

1. SUSTAINABILITY REPORTING AND ASSURANCE

Background

Following the PIOB certification of the IESBA and IAASB sustainability standards by the beginning of 2025, market participants and policymakers around the world now have a robust global baseline to instill confidence in sustainability reporting. Sustainability reporting has wide relevance for users both within and outside of capital markets and it requires additional information sources and the exercise of key judgments beyond financial reporting. There are also heightened risks, such as greenwashing, where organizations might seek to misrepresent their performance. Avoiding such risks, which could undermine public trust and capital flows into sustainable development, is clearly in the public interest.

The new IESBA sustainability standards for robust and consistent ethics and independence for sustainability reporting and assurance were developed in an accelerated timeline, to meet, to the greatest extent possible, the expectations of users placing reliance on reported information. The next step is a successful implementation of the sustainability standards, which will not only require further work of the IESBA, but also significant input from assurance practitioners, regulators, preparers and those charged with governance[1].

As sustainability reporting and assurance is at the start of a long journey and the new IESBA standards are central to this journey, it will necessarily need to evolve in line with public interest needs. The PIOB is encouraging all stakeholders to share feedback

[1] *The PIOB notes that, in the context of implementation of the global standards on ethics and independence for sustainability reporting and assurance, there are public interest matters beyond the remit of the IESBA. The implementation will require a robust level of public interest oversight, where regulators and those charged with governance have a role to ensure that preparers of the sustainability information as well as assurance practitioners have the appropriate skills and experience and comply with ethical reporting and assurance standards.*

from implementation, draw key lessons from experience, to enable timely refinements and, ideally, simplifications to the standards.

Status

In January 2025 the PIOB certified the standard *"International Ethics Standards for Sustainability Assurance (including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting"* (also referred to as the "standards" or IESSA in this section), as approved at the December 2024 IESBA meeting. The Public Interest Issues below reflect the key matters noted in the "Background" section above and highlight those areas that require further refinement in the context of the necessary evolution of the standards.

1.1. Supporting implementation through monitoring and rapid response

As sustainability reporting and assurance is a relatively new field, it is foreseen that questions will arise, and necessary clarifications will be needed across jurisdictions as sustainability practitioners start implementing the standards. Such challenges might arise, for example, in respect of expected involvement of those practitioners who are less familiar with the IESBA standards or in relation to the deferral of the effective date of the independence clauses for value chain components.

The PIOB encouraged the IESBA to create an effective monitoring and rapid response mechanism(s) to identify implementation challenges and to respond to them appropriately. In this context, the PIOB welcomes the establishment by the IESBA of the "IESSA Implementation Monitoring Advisory Group" (IIMAG) to provide insights, feedback or advice on identified areas relating to the implementation of the IESSA. Engaging with all relevant stakeholders, as an integral part of the monitoring and rapid response mechanism(s), will help ensure successful adoption and implementation of the IESSA through wide collaboration within the sustainability ecosystem, which is undergoing constant evolution in various jurisdictions.

The PIOB also emphasized the need for coordination with the IAASB and welcomes the appointments of an IAASB observer on the IIMAG and an IESBA observer on the corresponding working groups of the IAASB as well as joint outreach activities and publication of supporting implementation materials.

1.2. Scope of new Part 5 and applicability of Part 4B of the Code

The certified standards have been scoped to cover specific types of assurance on sustainability information as defined in the new Part 5 of the Code. While this approach is appropriate to have a global baseline at this point of time, further work is needed to achieve consistency in the standard's application for all sustainability assurance practitioners. The PIOB acknowledges that there remains a difference in the

application of the Code between professional accountants on one hand, and other practitioners who are not professional accountants, on the other:

- Both professional accountants and other practitioners must follow Part 5, which covers specific types of assurance on sustainability reporting with respect to sustainability information that is reported according to a general-purpose framework; required according to law or regulation; or publicly disclosed to support investors' and other stakeholders' decision making.
- Only professional accountants must follow Part 4B, which relates to other sustainability assurance services which are not covered under the scope of independence requirements in Part 5. Other practitioners are only encouraged to apply the requirements of Part 4B.

It is in the public interest, for the benefit of users of reliable and trustworthy sustainable information and the quality of its assurance, to have a level playing field for all sustainability assurance practitioners, i.e. both professional accountants and other sustainability assurance practitioners, who should be subject to the same requirements, for all sustainability assurance engagements, even for those which are not covered in the scope of independence requirements in Part 5.

The PIOB acknowledges the commitment of the IESBA to address this matter and welcomes the commencement of information gathering prior to a project proposal. In this context, it is important to take into account considerations in relation to the expansion of the scope of the Code, as further described in section 5 of this document.

1.3. Strengthening NOCLAR communication

The certified standards require communication on suspected or actual non-compliance with laws and regulations (NOCLAR), from the sustainability assurance practitioner to the financial statements' auditor, or vice versa, unless prohibited by law or regulation. This requirement is currently only applicable if the sustainability assurance client is also an audit client, or a component of an audit client, of the same firm. In other instances, the standard only requires that the assurance practitioner shall consider whether to communicate, which is consistent with the general approach of the Code.

In this context, the PIOB acknowledges the IESBA's plan to consider whether to expand and strengthen this requirement in a holistic way and in the near term, as described below.

Two-way NOCLAR communication between the financial statements' auditor and sustainability assurance practitioner, in all instances

The PIOB underlines the importance of two-way communication between different assurance practitioners to ensure adequate and timely follow-up of identified

instances of suspected, or actual, NOCLAR, which may include suspected greenwashing, in both the financial statements audit and the sustainability assurance engagement.

While communication may be easier in instances where the group and component sustainability assurance practitioners, as well as the financial statements auditor are from the same firm, the communication is necessary in all instances to address the risk of an uneven level-playing field for all assurance arrangements.

Two-way communication between the group sustainability assurance practitioner and assurance practitioners of the value chains

The PIOB notes that the approved standards only contain requirements for communication between the group sustainability assurance team and sustainability assurance practitioners of group components. There is no required communication by another practitioner performing work for the group assurance practitioner at a value chain component.

The PIOB encourages the IESBA to address the need for timely broader two-way communication in the context of NOCLAR between all relevant assurance practitioners. In this context, the PIOB welcomes that the IESBA has committed to address the NOCLAR communication matter throughout the Code in a holistic manner and that it has commenced NOCLAR post-implementation review.

2. FIRM CULTURE AND GOVERNANCE

Background

The project of Firm Culture and Governance was included in the Strategy and Work Plan 2024-27 due to a clear need to respond to persistent cases of unethical behavior within firms and to consider the broader issue of firm culture and governance and how these might impact ethical behavior and compliance with the Code. The PIOB has expressed strong support for this project.

Status

The IESBA discussed the work on Firm Culture and Governance during all its meetings in 2024, leading to the approval of the project proposal in December 2024. The IESBA continued gathering input for the project during the first quarter of 2025, including feedback through a series of global roundtables with a wide range of stakeholders. Based on the feedback received from the roundtables, as well as from other stakeholder outreach initiatives, the IESBA decided at its June 2025 meeting to re-sequence the project activities, prioritizing the development of non-authoritative and supporting material for the next 18-24 months while exploring the best approach for the Firm Culture and Governance Framework. Regarding the latter, the IESBA is developing, in parallel with non-authoritative and supporting material, a series of

"viewpoints" on various elements of the envisaged Framework. The IESBA is aiming to agree the "viewpoints" at its December 2025 meeting with a view to using them for further engagement with stakeholders in the first half of 2026. It is envisaged that by June 2026 the IESBA will stand back, reflect on the feedback received on the "viewpoints" and determine the way forward with respect to the Framework.

2.1. Achievement of behavioral changes as the ultimate goal of the project

The PIOB welcomes that the project proposal has defined the objective of the project as to develop a Firm Culture and Governance Framework that promotes, supports and reinforces a high standard of ethical behavior. The PIOB also welcomes IESBA's intention for the project to aim at instilling behavioral changes through the proposed Framework, in the specific areas highlighted by the project proposal, such as leadership of firms, provision of independent input, firm-wide level accountability, performance management, speak-up culture, education and training, and transparency. In referring to behavioral change, the PIOB emphasizes the importance of uniformity across all the service lines of firms, which require consistent interpretation and level of understanding of the Code regardless of the professional background of the individuals.

The PIOB encourages the IESBA to pursue development of an enforceable Framework inspired by an understanding of factors which contribute to unethical individual behavior and culture through building on fundamental ethical principles to achieve behavioral change, rather than "compliance" steps. Equally, ethical aspects relating to governance should stipulate substance rather than form, in order to complement the principles for individual behaviors and to also provide appropriate transparency for the users of services and public confidence more generally. The PIOB acknowledges the IESBA's commitment to achieve the goal of the project via a principles-based Framework in the Code, noting that there are benefits in re-sequencing the project steps to gain a better practical understanding and knowledge for the development of such a Framework (see section 2.3).

2.2. Scope of the project

The PIOB welcomes the IESBA's approach in the Firm Culture and Governance project proposal to address risks impacting the public interest arising from the organizational culture and governance of firms in which individuals work.

The PIOB welcomes the IESBA's approach to consider all service lines within the firm rather than a narrow approach focused only on the audit service line. An ethical culture that is integrated in the firm's strategy covering all service lines with supporting performance indicators, measurement and monitoring can guide a systematic

approach to continuous improvement. Considering these factors, the project will more completely address "firms" as market-facing multi-service entities, taking into consideration the interplay between traditional service lines, such as audit, with others that are not necessarily undertaken by professional accountants. Equally, it is important to cover arrangements within and across jurisdictions often housed under "network" arrangements.

The PIOB supports the intention of the IESBA to consider risks which arise within legal structures used across firms, as well as from private equity investments (see also Section 4), with attention to their interplay with incentives that might lead to unethical behavior and corporate governance arrangements. Scalability of the future Framework based on consistent principles to cover firms of different sizes, and with a clear rationale if non-application is envisaged in circumstances of certain firms, will require careful attention. Compatibility with local legislation and ensuring that public benefit is achieved in a neutral way with respect to market structure are among key matters to be considered for any potential amendments to the Code.

The PIOB supports the re-sequencing of the project steps (see section 2.3) and consideration of further feedback to better inform the ultimate standard setting work in achieving the agreed scope and objectives of the project.

In this context, the PIOB acknowledges the IESBA's commitment to remain within its remit and leave the regulation of legal structures to regulators. The PIOB supports the IESBA's focus on ensuring the ethical behavior of individuals of different backgrounds and expertise within the firm and ethical functioning of governance arrangements.

2.3. Approach to developing a Framework

The PIOB supports IESBA's decision to stand-back and assess how best to achieve the objectives of this project resulting in the re-sequencing of the project steps. This is appropriate considering the complex nature of the subject matter and variations in rules and practices across jurisdictions, as well as given the feedback received from a range of different stakeholders and the logic of using the proposed IESBA "viewpoints" to inform and make more efficient the design of the Framework. In this context, the PIOB acknowledges the IESBA's approach to utilize the "viewpoints" as a stepping stone in this respect and to ensure that the project's intended outcome is fully maintained in rebuilding and maintaining trust in firms in the public interest.

The PIOB welcomes the IESBA's consideration of whether, and if so when and how, field-testing of the "viewpoints" might be undertaken. If timed appropriately, this could be an important mechanism to avoid unintended consequences and achieve the ultimate success of the project.

The PIOB encourages the IESBA to responsibly consider risks of being misunderstood as to what the project is seeking to achieve at this stage. Clear communication is

crucial throughout the project, including the choice of terminology in the various materials being issued and how the "viewpoints" may be translated into a new framework. This is important to achieve understanding among stakeholders and keep the project's objective at the forefront, which is to enhance the role and contribution of the Code to support the public interest responsibility of the profession.

2.4. Inter-operability with ISQM 1

The PIOB emphasizes, as a matter of priority in the Firm Culture and Governance project, the benefits of an enhancement in ongoing coordination with the IAASB (see also Section 8). Such coordination is vital specifically with respect to the inter-operability of the characteristics of the anticipated Framework, as reflected in the draft IESBA "viewpoints", with the IAASB's International Standard on Quality Management ISQM1, through careful consideration of any links and potential overlaps between the two. Ethical behavior and independence are crucial principles that underpin audit quality, and they are already recognized by ISQM1. It is therefore important that IESBA communicates clearly to stakeholders in a timely way on how it intends to interlink the envisaged Framework with ISQM 1.

The PIOB acknowledges the IESBA's intention to address the interoperability point as a result of the feedback received through the roundtables and other outreach, and its reassessment of the project approach (see section 2.3).

3. COLLECTIVE INVESTMENT VEHICLES AND PENSION FUNDS

Background

The revised definition of "Public Interest Entity" (completed in 2022) does not explicitly include Collective Investment Vehicles (CIVs) and Pension Funds (PFs), but the Code contains a strong encouragement for local bodies to consider adding CIVs and PFs as categories of PIEs in their own jurisdictions. The PIOB supported this approach as the PIE definition was revised in 2022, regarding this as appropriate at that point in time. Equally, the PIOB strongly encouraged the IESBA, at the time, to undertake further research activities in respect of CIVs and PFs, specifically with respect to their interaction with related entities, and relationships with and between trustees, managers and advisors.

Status

In line with the approved Strategy and Work Plan for 2024-2027, the IESBA discussed the CIVs and PFs project during board meetings in 2024. The initial conclusions from the research conducted were that unrelated third parties that undertake significant

management responsibilities on behalf of CIVs and PFs are currently not explicitly captured by the Code's definitions of "audit client" and "related entity" and therefore there is a risk that auditors would not apply the conceptual framework in a consistent manner.

The IESBA approved a Consultation Paper at the IESBA meeting in March 2025, to solicit further views about this perceived gap in the Code. In September 2025, the IESBA considered a preliminary analysis of the feedback received. Building on this analysis and IESBA's guidance, the project team will develop a report with recommendations by December 2025.

3.1. Incorporation of Collective Investment Vehicles and Pension Funds into the Code

The PIOB supports the IESBA's activities to identify to what extent there is currently a public interest "gap" in coverage of the Code – i.e. risks arising from the absence of the specific independence provisions addressing audits of CIVs and PFs.

The PIOB has acknowledged the current intention of the IESBA to consider potential enhancements to independence provisions in the Code rather than reconsidering inclusion of CIVs and PFs explicitly in the PIE definition.

The PIOB supports the proposed way forward, to carefully consider the practical aspects of a "perceived gap" as described in the Consultation Paper. Before proposing any amendments to the Code, it is important to understand how auditors currently apply the conceptual framework to assess their independence when dealing with CIVs and PFs. This could provide insight as to whether there are inconsistencies in the application of the Conceptual Framework in the Code and whether there is a need for further clarity, and potentially requirements in the Code in respect of certain relationships.

The PIOB encourages the IESBA to investigate potential similarities in this respect between the CIVs and PFs on the one hand, and private equity investments (see Section 4) on the other, to ensure their consistent treatment in the Code.

In summary, it will be important to ensure that risks to the public interest are clearly articulated so that any eventual proposed revisions to the Code are tailored appropriately, also with scalability in mind, in order that they meet the public interest without unintended consequences.

3.2. Engagement with investors and other respondents

The PIOB underlines that the independence of auditors is fundamental for fostering trust in financial reporting and decision making. The Consultation Paper directly addressed independence challenges, seeking feedback on how independence may

be compromised, either in substance or appearance, due to relationships with "connected parties" of CIVs and PFs.

Gaining a deep understanding of the diverse feedback received to the Consultation Paper by stakeholder groups and conducting further engagement, as needed, are relevant steps to adequately respond to stakeholders' needs and the public interest.

Recognizing the strong interest expressed by investor stakeholder groups in the matters addressed in the Consultation Paper, as noted by the response of several investors and asset managers, the PIOB encourages the IESBA to further engage with the investor community. This dialogue is important to gain deeper insights into the key concerns and challenges surrounding auditor independence in the context of CIVs, PFs, and similar structures, and to explore potential approaches for effectively addressing these issues.

4. PRIVATE EQUITY INVESTMENTS

Background

Private equity investments (PEI) in audit firms have been increasing in recent years, particularly as firms seek capital to grow, invest in technology, or expand service offerings. As this trend is impacting the traditional structure of many accounting firms, the topic of PEI has become relevant to several on-going projects and initiatives of the IESBA.

Status

The IESBA's on-going projects where the PEI is relevant are most notably the Firm Culture and Governance (see Section 2), and CIVs, Pension Funds and other Investment Company Complexes (see Section 3). In addition, in July 2025 the IESBA issued a Staff Alert regarding PEI in audit firms, which aims to provide guidance on how to apply the Code, particularly its conceptual framework, to different PEI structures.

4.1. Coordination between various projects

The PIOB encourages the IESBA to clearly articulate, beyond the Staff Alert, whether it intends to address the ethics and independence considerations of the PEIs and how the different projects, as referred to above, interrelate. Another consideration could be to also coordinate with the IAASB regarding risk assessment aspects of the PEI in the context of its quality management standard ISQM 1. It is important that the respective teams work together to ensure consistency and coherence in their approaches.

OTHER PUBLIC INTEREST ISSUES

Background

During its oversight activities, the PIOB has identified several public interest issues, which are of a broader nature relevant to IESBA workstreams. These issues are described in Sections 5-8 below.

5. Potential expansion of the scope of the Code of Ethics

Consideration of the potential expansion of the impact of the Code, including possibly expanding the scope and application of the Code, is part of the IESBA's 2024-2027 Strategy and Work Plan, which the PIOB concluded in April 2024 has been developed in a manner consistent with agreed due process and is responsive to the public interest. The PIOB has already acknowledged the intention of the IESBA to expand the applicability of Part 4B to other practitioners who are not professional accountants (see Section 1.2 for details).

As the IESBA considers further expanding the applicability of the Code to individuals other than professional accountants, the PIOB underlines the importance of clear articulation of the anticipated benefits as well as any specific risks from the public interest perspective. Robust engagement would be imperative with investors, users, regulators and stakeholders both within the accountancy profession as well as among other professionals who would be the subject of any such extension of application of the Code. Equally, a wider impact analysis would be required to identify any potential unintended consequences regarding the efficacy of the Code as a whole where professional accountants are concerned. By way of example, this analysis would cover potential risks arising from the use of more universal language in any extension to enable other professionals to understand and apply the Code.

In summary, taking into account all the relevant perspectives, a potential extension of the application of the Code will require time and resources and therefore impact on other areas of IESBA's work. Therefore, careful evidence-based evaluation of priorities will be needed, considering the significance of risks to public interest issues to be addressed.

The IESBA's mandate to serve the public interest lies in setting ethics standards, including independence, as a cornerstone to ethical behavior. By definition, this mandate is distinct from, while complementary to, the remit of regulators. Preserving this complementarity while guarding against any overlap will help ensure that the Code continues to be responsive to the public interest and assist regulators in achieving efficient regulation.

6. Impact of technology on ethics and independence

Digitalization is profoundly impacting the role of auditors, transforming the conduct of their work and the skills required to perform their role. In this context, new risks for auditors with respect to ethics and independence have appeared.

It is welcome that the IESBA has recently issued revisions to the Code and resource materials for professional accountants, including Technology-related Revisions to the Code (effective from 15 December 2024) or Practical Guidance for auditors on how to apply the Code's requirements with respect to independence (dated July 2023). Remaining attentive to feedback on the usefulness of these materials and market developments overall will be important going forward. Equally, the PIOB encourages the IESBA to liaise closely with the IAASB with respect to its important technology-related project, with a view to anticipating any significant impacts on ethics and independence.

For both the IESBA and the IAASB, it is also important that the Boards benefit to the fullest extent possible from their existing technology expert groups, to ensure an appropriate understanding of the strategic risks related to the theme of technology.

7. Classification of assurance services and their impact on independence

The Code prescribes that auditors of financial statements consider potential threats to their independence in cases when a large proportion of fees charged to their clients is generated by providing services other than audit (paragraph 410.11 A1). Under the current approach, the non-audit services which trigger the application of these provisions, include all assurance services, with the exception of reviews of financial statements (paragraph 410.3 A3) and sustainability assurance within the scope of the new Part 5 of the Code (paragraph 410.11 A2a). Consequently, a wide range of assurance services are considered as threats to auditors' independence, based on IESBA's view that they have a lower level of public interest.

Recognizing the importance of the principle-based nature of the Code and its coherence, the PIOB is concerned about the public interest implications of such an inconsistency in the treatment of assurance services and the resulting stringent independence requirements. From the user and broader external perspective, the inconsistent treatment of different types of assurance creates unnecessary complexity which is not conducive to the credibility of the auditor and the assurance work performed. On these grounds, the PIOB encourages the IESBA to reflect on the public interest benefit of overall coherence in the approach with respect to independence of the financial statement auditor in the Code.

8. Interoperability of ethics and audit: IESBA and IAASB coordination

The PIOB notes that ethics and audit are two sides of the same coin, both from practitioners' and users' perspectives, as standards need to be interoperable to properly serve the public interest.

The PIOB acknowledges that the IESBA and IAASB coordinate their efforts at different stages of the development cycle of standards to determine potential implications on their respective projects, in alignment with the Public Interest Framework. In some instances, however, due to the complexity and nature of the topic and the challenge of achieving coherence in the standards, projects would require further joint efforts e.g. through joint board sessions, joint project teams, and potentially also by recasting some projects as joint projects.

A joint approach will enable the IAASB and IESBA to identify risks, opportunities, and impacts at an early stage for topics that overlap between ethics and audit and assurance. Clear communication of these matters will enhance stakeholders' understanding of the respective roles of ethics and audit and assurance, as well as their interdependence. The PIOB therefore encourages the IESBA and IAASB to consider whether to deepen the cooperation and coordination in the following projects:

- Implementation of Sustainability standards (see Section 1.1 and IAASB Public Interest Issues),
- Technology (see Section 6 and IAASB Public Interest Issues),
- Firm Culture and Governance and ISQM1 (see Section 2.4),
- Definition of Public Interest Entity (see IAASB Public Interest Issues).

In this context, the PIOB strongly supports the proposal to launch a joint survey by the IESBA and IAASB to inform the preparation of the Boards' next Strategies and Work Plans, which raises awareness among stakeholders of the critical role that both standard-setting boards play in the development of high quality interoperable ethical and assurance standards.

PIOB's Public Interest Issues - IAASB projects

(document updated as of October 2025)

The PIOB's Public Interest Issues presented in this document are based on the status of the IAASB´s projects after the IAASB September 2025 meeting and the PIOB meeting in October 2025. For each selected project, brief background information and project status are provided, followed by the identified Public Interest Issues. The Public Interest Issues may contain questions or concerns relating to the responsiveness of specific initiatives and projects to the public interest. We encourage the IAASB to consider these questions and concerns during the due process of developing the relevant standards.

For further information and details about the IAASB projects, please refer to the website: http://www.iaasb.org/consultations-projects.

CONTENTS

1. ASSURANCE ON SUSTAINABILITY REPORTING (ISSA 5000) 2
   1.1. Supporting implementation through monitoring and rapid response 3
   1.2. ISSA on Group sustainability assurance 4
   1.3. Communication between different assurance providers 4
   1.4. Key audit matters in sustainability assurance reports 4
2. AUDIT EVIDENCE AND RISK RESPONSE (ISA 330, ISA 500 and ISA 520) 5
   2.1. Scoping and objectives of the project 5
   2.2. Audit evidence aspects of the project 5
   2.3. Internal control aspects of the project 6
   2.4. Importance of Using Technology 6
   2.5. Auditor's role with respect to the authenticity of documentation 7
3. LISTED ENTITY AND PUBLIC INTEREST ENTITY 7
   3.1. Adoption of a Public Interest Entity definition in the IAASB Standards 8
4. TECHNOLOGY 9
   4.1. Scoping the theme of technology in auditing standards 9
   4.2. The Need for Comprehensive Outreach 10
   4.3. Approach to the Theme of Technology 10
5. ISRE 2410 REVIEW OF INTERIM FINANCIAL INFORMATION 11
   5.1. Clear and robust interim review requirements 11

6. INTEROPERABILITY OF ETHICS AND AUDIT: IAASB AND IESBA COORDINATION..... 12

Use of main acronyms and abbreviations

Code	The IESBA's Code of Ethics
ED	Exposure Draft
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
ISA	International Auditing Standards
ISAE	International Standard on Assurance Engagements
ISSA	International Standard on Sustainability Assurance
ISQM	International Standard on Quality Management
ISRE	International Standard on Review Engagements
ISSA	International Standard on Sustainability Assurance
PIOB	Public Interest Oversight Board

1. ASSURANCE ON SUSTAINABILITY REPORTING (ISSA 5000)

Background

Following the PIOB certification of the IESBA and IAASB sustainability standards, completed in January 2025, market participants and policymakers around the world now have a robust global baseline to instill confidence in sustainability reporting. Sustainability reporting has wide relevance for users both within and outside of capital markets and it requires additional information sources and the exercise of key judgments beyond financial reporting. There are also heightened risks, such as greenwashing, where organizations might seek to misrepresent their performance. Avoiding such risks, which could undermine public trust and capital flows into sustainable development, is clearly in the public interest.

The IAASB sustainability assurance standard, ISSA 5000, was developed in an accelerated timeline, to meet, to the greatest extent possible, the expectations of users placing reliance on reported information. The next step is a successful implementation of ISSA 5000, which will not only require further work of the IAASB, but also significant input from assurance practitioners, regulators, preparers and those charged with governance[1].

[1] *The PIOB notes that, in the context of implementation of the global standards on sustainability assurance, there are public interest matters beyond the remit of the IAASB. The implementation will require a robust level of public interest oversight, where regulators and those charged with governance have a role to ensure that preparers of the sustainability information as well as*

As sustainability reporting and assurance are at the start of a long journey and the new IAASB standard is central to this journey, it will necessarily need to evolve in line with public interest needs. The PIOB is encouraging all stakeholders to share feedback from implementation, draw key lessons from experience, to enable timely refinements to the standard.

Status

The IAASB approved ISSA 5000 in September 2024, and the PIOB certified in November 2024 that it followed due process and is responsive to the public interest. The Public Interest Issues below reflect the key matters noted in the "Background" section above and highlight those areas that require further refinement in the context of the necessary evolution of the standard.

1.1. Supporting implementation through monitoring and rapid response

As sustainability assurance is a relatively new field and ISSA 5000 is an overarching standard, it should be foreseen that questions will arise, and necessary clarifications will be needed across jurisdictions as sustainability assurance practitioners start implementing the standard.

The PIOB encouraged the IAASB to create an effective monitoring and rapid response mechanism(s) to monitor and identify implementation challenges and to respond to them appropriately. In this context, the PIOB welcomes the establishment by the IAASB of the "Sustainability Assurance Implementation Group" (SAIG) and the "ISSA 5000 Technical Implementation Group" (TICG) to provide insights, feedback or advice on identified areas relating to the implementation of ISSA 5000. Engaging all relevant stakeholders as an integral part of the monitoring and rapid response mechanism(s), will help ensure the successful adoption and implementation of ISSA 5000 through wide collaboration within the sustainability ecosystem, which is undergoing constant evolution in various jurisdictions.

The PIOB also emphasized the need for coordination with the IESBA and welcomes the appointments of an IESBA observer on the TICG and an IAASB observer on the corresponding working group of the IESBA as well as joint outreach activities and publication of supporting implementation materials.

assurance providers have the appropriate skills and experience and comply with ethical reporting and assurance standards.

1.2. ISSA on Group sustainability assurance

We expect that ISSA 5000 will most likely at first be applied on assurance engagements of sustainability reporting by large corporations, which mostly have group structures and require input of a diverse range of professionals. The PIOB welcomed the initiative of the IAASB to address our earlier concerns in respect of group structures, by, as an interim measure, including overriding principles within ISSA 5000 for group sustainability assurance engagements. The PIOB recommends the IAASB, as part of its future work on sustainability, addresses in further detail matters specifically related to group assurance engagements, potentially in a dedicated ISSA similar to ISA 600 (Revised) *"Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)"*, or in a future development of ISSA 5000. This could include matters such as materiality, supervision of the work of component practitioners, value chain components and communication among members of the engagement team, among others.

1.3. Communication between different assurance providers

Based on the inter-connectivity between sustainability and financial reporting, the PIOB underlines the importance of broader two-way communication between various assurance providers, to ensure adequate and timely follow-up of identified issues in both the financial statements audit and the sustainability assurance engagements. While communication may be more straightforward where the financial statements auditor is from the same firm, or a member of the same network, as the sustainability assurance provider, the communication is necessary in all cases, including where different individuals and firms are involved.

The PIOB noted that, due to time constraints and recognizing the overall benefits of finalizing the new standard before the end of 2024, ISSA 5000 only contains requirements for one-way communication by the sustainability assurance provider, without consequential amendments to relevant ISAs. The PIOB encourages the IAASB to address the need for two-way communication in future sustainability-related work on the ISAs, including the issues of confidentiality and timing of sustainability and financial reporting.

1.4. Key audit matters in sustainability assurance reports

One of the public interest considerations during the development of ISSA 5000 was whether to include a requirement for Key Audit Matters (KAMs) in the sustainability assurance report. The PIOB notes that the IAASB concluded not to include such a requirement, even in the instance of public interest entities (PIEs), with reasoning in this regard explained in terms of the balance between costs and benefits. We

acknowledge and support the IAASB's commitment to consider addressing the use of KAMs in the future development of sustainability assurance standards.

2. AUDIT EVIDENCE AND RISK RESPONSE (ISA 330, ISA 500 AND ISA 520)

Background

The IAASB undertook a public consultation in 2022 on ED-500 "Audit Evidence" but subsequently decided to pause the project with a re-scoping in mind, including a focus on Technology and Internal Controls. As a result, during 2024 the IAASB carried out further work to identify, understand and scope a new project: "*Standards that address Audit Evidence and the Auditor's Responses to Assessed Risks of Material Misstatement*" (the "Audit Evidence and Risk Response" project). This project envisages concurrent revisions of ISA 330 (*The Auditor's Responses to Assessed Risks*), ISA 500 (*Audit Evidence*), and ISA 520 (*Analytical Procedures*).

Status

The IAASB approved the project proposal for Audit Evidence and Risk Response in December 2024 and the project team has been working on identified issues. In line with the update of priorities within the Strategy and Work Plan 2024-2027, the project is expected to be finalized in 2027.

2.1. Scoping and objectives of the project

The PIOB continues to regard the overarching topics of audit evidence, risk response, technology and internal controls, which are fundamental to audit methodology, as highly relevant to the public interest by achieving enhanced audit quality. The PIOB welcomes that the project proposal sets out the specific objectives for this project as they relate to the Public Interest Framework (PIF). This will help to ensure that the entire project stays focused, and that its public interest objectives are achieved in a timely way.

In undertaking its detail drafting work, the PIOB encourages the IAASB to specifically focus on clarity and conciseness as key PIF qualitative characteristics, especially from the perspective of smaller practitioners who may have limited technical resources when implementing standards into their audit methodologies.

2.2. Audit evidence aspects of the project

The PIOB welcomes the fact that the project proposal considers several important topics to strengthen the ISA requirements around audit evidence:

- the auditors' role in respect of evaluating the relevance and reliability of information which is used as audit evidence, including clarification of the principles behind the use of analytical procedures and identification of possible fraudulent information or unreliable sources of information;
- encouraging auditors, where appropriate, to seek external sources of specific information, which could contradict or corroborate audit evidence obtained from the client;
- strengthening of professional skepticism in evaluating whether there is sufficient appropriate audit evidence obtained to support the opinion and regarding the reliability of information which will be used as audit evidence, including cases when there is inconsistency in audit evidence;
- clarifying how the various stand-back requirements across the ISAs work together.

The PIOB emphasizes the importance of considering the balance between requirements in the standards and supporting Application Material relating to persuasiveness of audit evidence. The PIOB considers it crucial that amendments are made with reference to the PIF qualitative characteristics, in particular, clarity and enforceability, with a view to driving improved auditor behavior and increased audit quality.

2.3. Internal control aspects of the project

The PIOB welcomes the IAASB's intention to address through this project instances of inconsistent requirements of ISAs in respect of internal controls to enhance audit quality:

- make clear in which circumstances an auditor is required to test internal controls, thereby overcoming the limitations of substantive testing;
- clarify how to address situations where there is a lack of internal controls or inconsistent operations of controls, including deficiencies in pervasive internal controls, such as IT general controls or segregation of duties, within an entity;
- enhance the exercise of professional skepticism in designing and performing tests of controls, strengthen or clarify relevant requirements and application material.

In the context of the intended enhancements of the standards, the PIOB emphasizes the importance of the public interest in achieving increased audit quality through clearer and enforceable requirements in the area of internal controls.

2.4. Importance of Using Technology

The PIOB welcomes the IAASB's intention to address various aspects of technology in the standards relating to audit evidence and risk response through the project's focus on the following:



- Principle-based, scalable and proportional requirements and application material relating to the use of automated tools and techniques (ATT), including exploration of instances where the use of ATT may be appropriate or even required.
- Relevance and reliability of audit evidence when using ATT, including caution against the possible overreliance on information from certain sources. In this context, the PIOB encourages further outreach with regulators on the risks of improper overreliance on technology tools in audit or overreliance by auditors on IT General Controls of audited entities, according to their inspection findings.

The PIOB underlines that technology is not only relevant in respect of audit evidence and risk response but is a more pervasive theme throughout the whole suite of ISAs, and therefore important for the future evolution of audit (see section 3.1).

2.5. Auditor's role with respect to the authenticity of documentation

When revising ISA 240, "The auditor's responsibilities related to fraud in an audit of financial statements", the IAASB decided to delete the following sentence from the standard: "*Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine*". It was, however, retained in ISA 200, *Overall objectives of the independent auditor and the conduct of an audit in accordance with ISAs* (application paragraph A24). The retention of this sentence raises concerns about the degree of professional skepticism required of auditors across the ISAs, including requirements on robustness of audit evidence. The PIOB notes that some major scandals over recent years involved auditor failures with respect to falsified documents, which generated an expectation that audits should include some procedures to consider this risk.

The PIOB welcomes the IAASB's intention to address this concern in relation to the Audit Evidence and Risk Response project, including the need for consequential amendments in ISA 200. The PIOB emphasizes that it is in the public interest that the standards consistently reinforce the exercise of professional skepticism to adequately detect and respond to the above-mentioned risks.

3. LISTED ENTITY AND PUBLIC INTEREST ENTITY

Background

The IAASB has amended the ISQMs and the ISAs in response to the IESBA's revisions of the definitions of Listed Entity and Public Interest Entity (PIE) in the Code of Ethics. In a first phase transparency requirements regarding independence in the audit report (ISA 700) and in communication with those charged with governance (ISA 260) were addressed (Certified by the PIOB in 2023).

In a second phase, the IAASB aimed to converge the concepts between the Code, ISQMs and other ISAs, to the greatest extent possible and to consider whether differential requirements should be extended to all PIEs. During the development of this project, the IAASB noted that the adoption of the IESBA's definition of Public Interest Entity would pose the risk of jurisdictional differences in the application of the ISAs, as allowed by the IESBA's definition. Hence, in June 2025 the IAASB approved the adoption of the definition of Publicly Traded Entity (PTE), one of the categories of PIE in the IESBA Code, to replace the term "Listed Entity" in its standards, instead of adopting the PIE definition of the Code. This approach supports interoperability between the ISAs and the Code, while ensuring consistent implementation of the ISAs across jurisdictions. The IAASB has further introduced a framework to guide the auditor in determining whether other entities may warrant treatment similar to Publicly Traded Entities.

Status

The PIOB certified in August 2025 that the narrow scope amendments followed due process and are responsive to the public interest.

The PIOB is of the view that further alignment towards a single Public Interest Entity definition is necessary in the public interest and note that IAASB and IESBA have committed to a joint action to address this matter.

3.1. Adoption of a Public Interest Entity definition in the IAASB Standards

The definition of PIE is crucial to determine the categories of entities that are subject to stricter (differential) requirements in the ISAs, ISQMs and the Code of Ethics. This treatment is responsive to heightened expectations over the audit of these entities because of the significance of the public interest in their financial condition.

The PIOB views the IAASB's approach to adopt only the PTE definition to be a pragmatic and constructive first step towards alignment with the IESBA's broader PIE definition and to further consider extending differential requirements in the IAASB standards to all categories of PIEs.

The PIOB considers that the IAASB and IESBA should address underlying matters which have to date hindered the global adoption of an interoperable PIE definition with categories beyond PTEs. This requires a joint project by the IAASB and the IESBA as the most appropriate route to achieve such definition.

The joint initiative should commence as soon as practicable, integrating evidence from the IESBA's post-implementation review of its PIE definition, scheduled for 2027, as committed by the IAASB and IESBA.

4. TECHNOLOGY

Background

Digitalization is profoundly impacting the role of auditors, transforming how they conduct their work, and the skills required to perform their role. The use of new or emerging technologies by management in their financial and non-financial reporting processes, as well as by auditors in performing audit procedures, introduces new or evolving risks for credibility of financial and non-financial information. The IAASB is currently working on addressing such risks in its standard setting activities.

Status

In September 2024 the IAASB issued a document "The IAASB's Technology Position", which is a framework aimed to guide the Board's activities relating to the impact of technology on audit and assurance engagements. At the March 2025 IAASB meeting, the Board considered a gap analysis of technological aspects of the International Standards on Quality Management (ISQMs) and the International Standards on Auditing (ISAs) (presented as "Catalog of Issues and Possible Actions") and provided feedback on how to further enhance the Catalog. The first edition of the Catalog was published on the IAASB's website in May 2025, subject to a semi-annual update cycle. Since the June 2025 IAASB meeting, a new Technology Quality Management Workstream has been working to understand how firms are applying the principles of ISQM 1[2] and ISA 220 (Revised)[3] to emerging technologies at the firm and engagement level, respectively, and to assess what additional support may be needed from the IAASB.

4.1. Scoping the theme of technology in auditing standards

The PIOB welcomes the ambition of the IAASB around emerging technologies to enhance the value and relevance of audit.

The PIOB supports the IAASB's focus on the pervasive impact of technology in the development and revision of its standards, to ensure timely response and enhancing audit quality. The PIOB welcomes the IAASB's ongoing work on the gap analysis to identify specific opportunities to enhance the ISAs and ISQMs for technology related matters, and the finalization of the "Catalog of Issues and Possible Actions", with a plan for regular update going forward.

The new and emerging technologies, such as advanced data analytics, artificial intelligence (AI), machine learning (ML) and block-chain, have not only brought new risks for auditors, but are reshaping the audit landscape, gradually transforming

[2] International Standard on Quality Management 1 (ISQM 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
[3] ISA 220 (Revised), Quality Management for an Audit of Financial Statements

perspectives on how to undertake the audit and how to maintain the audit trail. Data analytics already enables auditors to identify trends, patterns, and anomalies that may not be apparent through traditional methods. To this end, the revisions of relevant standards ought not only to embrace the current practice, but to continue to stay relevant in the evolving technological audit environment.

The PIOB therefore encourages the IAASB to clearly articulate, with reference to the public interest, the challenges that the technological initiative is aiming to address, including the opportunities and risks arising from technology, in the context of the current audit model. At the same time, a common understanding is needed between auditors and users with respect to the scope of the audit and the level of assurance, to avoid a possible widening of the expectation gap.

Considering the overarching impact of technologies on auditors, the PIOB emphasizes the need for co-ordination with the IESBA, beginning at the scoping phase of relevant projects. For both the IAASB and the IESBA, it is important that the Boards benefit to the fullest extent possible from their existing technology expert groups, to ensure an appropriate understanding of the strategic risks related to the theme of technology.

4.2. The Need for Comprehensive Outreach

The PIOB notes that the current activities of IAASB are focused on understanding how firms are applying the principles of the quality management standards to emerging technologies, with a goal to guide the firms to responsible innovation and consistent application of those principles. The PIOB welcomes the IAASB's initiative of roundtables with various stakeholders, considering it as an important part of the due process. The PIOB notes that other format of outreach, including one-to-one discussions, might be considered in addition to the roundtables, in order to achieve comprehensive and deep understanding of how firms are approaching the usage of emerging technologies.

Additionally, it is important to understand how the emerging technologies are used by preparers and users of both financial and non-financial information, and how it impacts the role of audit and assurance in enhancing the confidence in corporate reporting. Therefore, further outreach with these stakeholder groups is key to gaining a holistic understanding of public interest issues that should be addressed as part of the IAASB's technology initiative.

4.3. Approach to the Theme of Technology

The PIOB acknowledges the need for agility in order to address the challenges and opportunities brought by emerging technologies and has noted the IAASB's intention

to consider using non-authoritative materials as a timely and effective way of supporting consistent application of its Quality Management Standards to these technologies.

In this context, the PIOB acknowledges a need to identify possible mechanisms to remain agile while respecting the role of oversight in the public interest. Further discussion about those mechanisms may give rise to new considerations with respect to the evolution of standards where matters of due process under public oversight will also require attention.

5. ISRE 2410 REVIEW OF INTERIM FINANCIAL INFORMATION

Background

The International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* establishes the auditor's responsibilities to provide limited assurance on the interim financial information issued by companies. ISRE 2410 has remained largely unchanged since it was issued in 2005. It was not subject to the Clarity project, nor to conforming and consequential amendments of recent projects. This has resulted in inconsistencies in practice and challenges in its application, as well as increased the risk of jurisdictional fragmentation, due to the development of local standards to address such challenges. Consequently, the IAASB SWP for 2024-2027 included a project to revise ISRE 2410.

Status

In June 2025, the IAASB approved the project proposal and since then has been deliberating on some of the issues and challenges identified. The IAASB expects to complete an exposure draft in March 2026.

5.1. Clear and robust interim review requirements

Interim financial information provides periodic updates about the financial performance of an entity throughout the year and its review by the auditor enhances the confidence of the intended users of that information. Trustworthy and timely financial information becomes particularly relevant for investors and users in contexts of high volatility and rapid change.

The PIOB supports the revision of ISRE 2410 to support auditors in the performance of review engagements of interim financial information as a matter of public interest. As interim reviews are designed to achieve limited assurance, the revision of the standard should provide clear guidance to auditors on the work effort required and ensure that review reports are also clear for users in respect of the level of assurance achieved.

In addition, the revisions should incorporate robust procedures, proportionate to limited assurance, in areas such as going concern, fraud and group considerations that have been recently updated and strengthened.

6. INTEROPERABILITY OF ETHICS AND AUDIT: IAASB AND IESBA COORDINATION

The PIOB notes that ethics and audit are two sides of the same coin, both from practitioners' and users' perspectives, as standards need to be interoperable to properly serve the public interest.

The PIOB acknowledges that the IAASB and IESBA coordinate their efforts at different stages of the development cycle of standards to determine potential implications on their respective projects, in alignment with the Public Interest Framework. In some instances, however, due to the complexity and nature of the topic and the challenge of achieving coherence in the standards, projects would require further joint efforts e.g. through joint board sessions, joint project teams, and potentially also by recasting some projects as joint projects.

A joint approach will enable the IAASB and IESBA to identify risks, opportunities, and impacts at an early stage for topics that overlap between ethics and audit and assurance. Clear communication of these matters will enhance stakeholders' understanding of the respective roles of ethics and audit and assurance, as well as their interdependence.The PIOB therefore encourages the IAASB and IESBA to consider whether to deepen the cooperation and coordination in the following projects:

- Implementation of Sustainability standards (see Section 1.1 and IESBA Public Interest Issues)
- Definition of Public Interest Entity (see Section 3)
- Technology (see Sections 2.4 and 3.1 and IESBA Public Interest Issues)
- Firm Culture and Governance and ISQM1 (see IESBA Public Interest Issues).

In this context, the PIOB strongly supports the proposal to launch a joint survey by the IAASB and IESBA to inform the preparation of the Boards' next Strategies and Work Plans, which raises awareness among stakeholders of the critical role that both standard-setting boards play in the development of high quality interoperable ethical and assurance standards.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

[XRB] 2025/13

This secondary legislation is administered by the External Reporting Board.
For more information please see:
Website: www.xrb.govt.nz
Contact phone: +64 4 550 2030
Contact address: Level 6/154 Featherston St, Wellington, 6011

There is an explanatory note at the end of this standard that sets out how and from when this standard operates.

International Standard on Auditing (New Zealand) 320, *Materiality in Planning and Performing an Audit*

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the External Reporting Board after complying with section 22 of that Act.

CONTENTS

	Paragraph
Title	0.1
Commencement	0.2
Interpretation	0.3
Application	0.4
Revocation	0.5
Transitional, savings, and related provisions	0.6
~~History of Amendments~~	
Introduction	
Scope of this ISA (NZ)	1
Materiality in the Context of an Audit	2–6
Effective Date	7
Objective	8
Definition	9
Requirements	
Determining Materiality and Performance Materiality When Planning the Audit	10–11
Revision as the Audit Progresses	12–13

Documentation 14

Application and Other Explanatory Material

Materiality and Audit Risk A1

Materiality in the Context of an Audit A2

Determining Materiality and Performance Materiality When Planning the Audit A3–A13

Revision as the Audit Progresses A14

Schedule 1

~~Accompanying Attachment: Conformity to the International Standards on Auditing~~

International Standard on Auditing (New Zealand) (ISA (NZ)) 320, *"Materiality in Planning and Performing an Audit,"* should be read in conjunction with ISA (NZ) 200, *"Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)."*

Title

0.1 This is the International Standard on Auditing (New Zealand) 320, *Materiality in Planning and Performing an Audit.*

Commencement

0.2 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019 (see section 27 of the Financial Reporting Act 2013).

This note is not part of the standard.
This standard was published on 18 December 2025 and takes effect on 15 January 2026.

Interpretation

0.3 In this standard ISA (NZ) 320 means the International Standard on Auditing (New Zealand) 320, *Materiality in Planning and Performing an Audit*.

Application

0.4 This standard commences to apply in relation to accounting periods that begin on or 15 December 2026.

Revocation

0.5 The standard International Standard on Auditing (New Zealand) 320, *Materiality in Planning and Performing an Audit*, issued in July 2011 is revoked on the date this standard takes effect.

Transitional, savings, and related provisions

0.6 The transitional, savings, and related provisions (if any) set out in Schedule 1 have effect according to their terms.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements. ISA (NZ) 450[1] explains how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

Materiality in the Context of an Audit

2. Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:
   - Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
   - Judgements about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
   - Judgements about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group.[2] The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.
3. Such a discussion, if present in the applicable financial reporting framework, provides a frame of reference to the auditor in determining materiality for the audit. If the applicable financial reporting framework does not include a discussion of the concept of materiality, the characteristics referred to in paragraph 2 provides the auditor with such a frame of reference.
4. The auditor's determination of materiality is a matter of professional judgement, and is affected by the auditor's perception of the financial information needs of users of the financial statements. In this context, it is reasonable for the auditor to assume that users:
   (a) Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;

---

1 ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit*.

2 ~~For example, the IASB *Conceptual Framework for Financial Reporting* indicates that, for a profit-oriented entity, as investors are providers of risk capital to the enterprise, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy.~~See, for example, the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 *NZ Conceptual Framework*)

(b) Understand that financial statements are prepared, presented and audited to levels of materiality;

(c) Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and

(d) Make reasonable economic decisions on the basis of the information in the financial statements.

5. The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. (Ref: Para. A1)

6. In planning the audit, the auditor makes judgements about misstatements that will be considered material. These judgements provide a basis for:

(a) Determining the nature, timing and extent of risk assessment procedures;

(b) Identifying and assessing the risks of material misstatement; and

(c) Determining the nature, timing and extent of further audit procedures.

The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in the aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality. It is not practicable to design audit procedures to detect all misstatements that could be material solely because of their nature. However, consideration of the nature of potential misstatements in disclosures is relevant to the design of audit procedures to address risks of material misstatement[3]. In addition, when evaluating the effect on the financial statements of all uncorrected misstatements, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence.[4] (Ref: Para.A2)

Effective Date

7. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments].~~[Replaced by the NZAuASB. Refer to paragraph~~s~~ 0.4]

Objective

8. The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit.

Definition

9. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:

---

[3] ISA (NZ) 315 ~~(Revised 2019)~~, *Identifying and Assessing the Risks of Material Misstatement,* paragraphs ~~A191~~A204 and ~~A19~~233~~.~~

[4] ISA (NZ) 450, paragraph A2~~1~~2~~.~~

(a) Performance materiality – The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce aggregation risk to an appropriately low level. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

(b) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statement as a whole.

Requirements

Determining Materiality and Performance Materiality When Planning the Audit

10. When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (Ref: Para. A3–A12)

11. The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. (Ref: Para. A13)

Revision as the Audit Progresses

12. The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially. (Ref: Para. A14)

13. If the auditor concludes that a lower materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate.

Documentation

14. The audit shall include in the audit documentation the following amounts and the factors considered in their determination:[5]

(a) Materiality for the financial statements as a whole (see paragraph 10);

(b) If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures (see paragraph 10);

(c) Performance materiality (see paragraph 11); and

---

5 ISA (NZ) 230, *Audit Documentation*, paragraphs 8–11 and paragraph A6.

(d) Any revision of (a) –(c) as the audit progressed (see paragraphs 12–13).

***

Application and Other Explanatory Material

Materiality and Audit Risk (Ref: Para. 5)

A1. In conducting an audit of financial statements, the overall objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and to report on the financial statements, and communicate as required by the ISAs (NZ), in accordance with the auditor's findings.[6] The auditor obtains reasonable assurance by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.[7] Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.[8] Materiality and audit risk are considered throughout the audit, in particular, when:

(a) Identifying and assessing the risks of material misstatement;[9]

(b) Determining the nature, timing and extent of further audit procedures;[10] and

(c) Evaluating the effect of uncorrected misstatements, if any, on the financial statements[11] and in forming the opinion in the auditor's report.[12]

Materiality in the Context of an Audit (Ref: Para. 6)

A2. Identifying and assessing the risks of material misstatement[13] involves the use of professional judgement to identify those classes of transactions, account balances and disclosures, including qualitative disclosures, the misstatement of which could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole). When considering whether misstatements in qualitative disclosures could be material, the auditor may identify relevant factors such as:

---

6 ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph 13~~1~~.

7 ISA (NZ) 200, paragraph 19~~7~~.

8 ISA (NZ) 200, paragraph 13~~5~~(c)~~.~~

9 ISA (NZ) 315 ~~(Revised 2019), "*Identifying and Assessing the Risks of Material Misstatements*."~~

10 ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*~~.~~

11 ISA (NZ) 450~~.~~

12 ISA (NZ) 700 ~~(Revised)~~, *Forming an Opinion and Reporting on Financial Statements*~~.~~

13 ISA (NZ) 315 ~~(Revised 2019)~~, paragraph~~s~~ 28–37, requires the auditor to identify and assess the risk of material misstatement at the financial statement and assertion level.

- The circumstances of the entity for the period (for example, the entity may have undertaken a significant business combination during the period).
- The applicable financial reporting framework, including changes therein (for example, a new financial reporting standard may require new qualitative disclosures that are significant to the entity).
- Qualitative disclosures that are important to users of the financial statements because of the nature of an entity (for example, liquidity risk disclosures may be important to users of the financial statements for a financial institution).

Determining Materiality and Performance Materiality when Planning the Audit

Considerations Specific to Public Sector Entities (Ref: Para. 10)

A3. In the case of a public sector entity, legislators and regulators are often the primary users of its financial statements. Furthermore, the financial statements may be used to make decisions other than economic decisions. The determination of materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) in an audit of the financial statements of a public sector entity is therefore influenced by law, regulation or other authority, and by the financial information needs of legislators and the public in relation to public sector programmes.

Use of Benchmarks in Determining Materiality for the Financial Statements as a Whole (Ref: Para. 10)

A4. Determining materiality involves the exercise of professional judgement. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole. Factors that may affect the identification of an appropriate benchmark include the following:

- The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses);
- Whether there are items on which the attention of the users of the particular entity's financial statements tends to be focused (for example, for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets);
- The nature of the entity, where the entity is in its life cycle, and the industry and economic environment in which the entity operates;
- The entity's ownership structure and the way it is financed (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings); and
- The relative volatility of the benchmark.

A5. Examples of benchmarks that may be appropriate, depending on the circumstances of the entity, include categories of reported income such as profit before tax, total revenue, gross profit and total expenses, total equity or net asset value. Profit before tax from continuing operations is often used for profit-oriented entities. When profit before tax

from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.

A6. In relation to the chosen benchmark, relevant financial data ordinarily includes prior periods' financial results and financial positions, the period-to-date financial results and financial position, and budgets or forecasts for the current period, adjusted for significant changes in the circumstances of the entity (for example, a significant business acquisition) and relevant changes of conditions in the industry or economic environment in which the entity operates. For example, when, as a starting point, materiality for the financial statements as a whole is determined for a particular entity based on a percentage of profit before tax from continuing operations, circumstances that give rise to an exceptional decrease or increase in such profit may lead the auditor to conclude that materiality for the financial statements as a whole is more appropriately determined using a normalised profit before tax from continuing operations figure based on past results.

A7. Materiality relates to the financial statements on which the auditor is reporting. Where the financial statements are prepared for a financial reporting period of more or less than twelve months, such as may be the case for a new entity or a change in the financial reporting period, materiality relates to the financial statements prepared for that financial reporting period.

A8. Determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgement. There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue. For example, the auditor may consider five percent of profit before tax from continuing operations to be appropriate for a profit-oriented entity in a manufacturing industry, while the auditor may consider one percent of total revenue or total expenses to be appropriate for a not-for-profit entity. Higher or lower percentages, however, may be deemed appropriate in the circumstances.

Considerations Specific to Small Entities

A9. When an entity's profit before tax from continuing operations is consistently nominal, as might be the case for an owner-managed business where the owner takes much of the profit before tax in the form of remuneration, a benchmark such as profit before remuneration and tax may be more relevant.

Considerations Specific to Public Sector Entities

A10. In an audit of a public sector entity, total cost or net cost (expenses less revenues or expenditure less receipts) may be appropriate benchmarks for programme activities. Where a public sector entity has custody of public assets, assets may be an appropriate benchmark.

Materiality Level or Levels for Particular Classes of Transactions, Account Balances or Disclosures (Ref: Para. 10)

A11. Factors that may indicate the existence of one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to

influence the economic decisions of users taken on the basis of the financial statements include the following:

- Whether law, regulation or the applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items (for example, related party transactions, the remuneration of management and those charged with governance, and sensitivity analysis for fair value accounting estimates with high estimation uncertainty).
- The key disclosures in relation to the industry in which the entity operates (for example, research and development costs for a pharmaceutical company).
- Whether attention is focused on a particular aspect of the entity's business that is separately disclosed in the financial statements (for example, disclosures about segments or a significant business combination).

A12. In considering whether, in the specific circumstances of the entity, such classes of transactions, account balances or disclosures exist, the auditor may find it useful to obtain an understanding of the views and expectations of those charged with governance and management.

Performance Materiality (Ref: Para. 11)

A13. Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated, and leaves no margin for possible undetected misstatements. Performance materiality (which, as defined, is one or more amounts) is set at less than materiality for the financial statements as a whole to reduce aggregation risk to an appropriately low level. Similarly, performance materiality relating to a materiality level determined for a particular class of transactions, account balance or disclosure is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in that particular class of transactions, account balance or disclosure exceeds the materiality level for that particular class of transactions, account balance or disclosure. The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgement. It is affected by the auditor's understanding of the entity, updated during the performance of the risk assessment procedures; and the nature and extent of misstatements identified in previous audits and thereby the auditor's expectations in relation to misstatements in the current period.

Revision as the Audit Progresses (Ref: Para. 12)

A14. Materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) may need to be revised as a result of a change in circumstances that occurred during the audit (for example, a decision to dispose of a major part of the entity's business), new information, or a change in the auditor's understanding of the entity and its operations as a result of performing further audit procedures. For example, if during the audit it appears as though actual financial results are likely to be substantially different from the anticipated period end financial results that were used initially to determine materiality for the financial statements as a whole, the auditor revises that materiality.

Schedule 1

Transitional, savings, and related provisions

Part 1 Provisions relating to this standard as made

There are no transitional, savings, or related provisions in this standard as made.

Made at Wellington on 12 December 2025

John Kensington

Chair

External Reporting Board

Explanatory and other information

These notes and other information are not part of the standard

Explanatory note

This standard is the International Standard on Auditing (New Zealand) 320, *Materiality in Planning and Performing an Audit.*

This standard is the New Zealand equivalent of International Standard on Auditing 320, *Materiality in Planning and Performing an Audit*, and results from revisions to international standards issued by the International Auditing and Assurance Standards Board relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

This standard applies to accounting periods that begin on or after 15 December 2026.

The standard was approved by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board.

This standard revokes the ISA (NZ) 320 *Materiality in Planning and Performing an Audit* issued in July 2011. However, that standard continues to apply in relation to accounting periods that begin before 15 December 2026 as if it had not been revoked. (see Legislation Act 2019).

Conformity with International Standards on Auditing

This Standard conforms to International Standard on Auditing ISA 320, *Materiality in Planning and Performing an Audit*, issued by the International Auditing and Assurance Standards Board (IAASB).

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix "NZ".

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 320.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 320, *Materiality in Planning and Performing an Audit*.

ASA 320 conforms to ISA 320.

Copyright

The Standard above is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board ("IAASB"). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the

right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at https://www.xrb.govt.nz/about-xrb/contact-us/

ISBN 978-1-99-100585-4

History of Amendments

Table of instruments – ISA (NZ) 320

This table lists the instruments amending this standard.

Instrument	Date made	Application date

Minimum Legislative Information

This Standard is secondary legislation published under the Legislation Act 2019.

Title	International Standard on Auditing (New Zealand) 320, *Materiality in Planning and Performing an Audit*
Principal or amendment	Principal
Consolidated version	No
Empowering Act and provisions	Section 12(b) of the Financial Reporting Act 2013.
Replacement empowering Act and provision	
Maker name	External Reporting Board
Administering agency	External Reporting Board
Date made	12 December 2025
Publication date	18 December 2025
Notification date	18 December 2025
Commencement date	This standard takes effect on 15 January 2026.
End date	
Consolidation as at date	
Related instruments	

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

[XRB] 2025/15

This secondary legislation is administered by the External Reporting Board.
For more information please see:
Website: www.xrb.govt.nz
Contact phone: +64 4 550 2030
Contact address: Level 6/154 Featherston St, Wellington, 6011

There is an explanatory note at the end of this standard that sets out how and from when this standard operates.

International Standard on Auditing (New Zealand) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

This Standard is made under section 12(b) of the Financial Reporting Act 2013 by the External Reporting Board after complying with section 22 of that Act.

CONTENTS

~~History of Amendments~~

~~Introduction~~ Paragraph

Title 0.1

Commencement 0.2

Interpretation 0.3

Application 0.4

Revocation 0.5

Transitional, savings, and related provisions 0.6

Introduction

Scope of this ISA (NZ) 1–5

Effective Date 6

Objectives 7

Definitions 8

Requirements

Obtaining an Understanding of the Services Provided by a Service Organisation, Including Internal Control 9–14

Responding to the Assessed Risks of Material Misstatement 15–17

Type 1 and Type 2 Reports that Exclude the Services of a Subservice Organisation 18

Fraud, Non–Compliance with Laws and Regulations and Uncorrected Misstatements in Relation to Activities at the Service Organisation 19

Reporting by the User Auditor 20–22

Application and Other Explanatory Material

Obtaining an Understanding of the Services Provided by a Service Organisation, Including Internal Control A1–A23

Responding to the Assessed Risks of Material Misstatement A24–A39

Type 1 and Type 2 Reports that Exclude the Services of a Subservice Organisation A40

Fraud, Non-Compliance with Laws and Regulations and Uncorrected Misstatements in Relation to Activities at the Service Organisation A41

Reporting by the User Auditor A42–A44

~~Accompanying Attachment: Conformity to the International Standards on Auditing~~

Schedule 1

International Standard on Auditing (New Zealand) (ISA (NZ)) 402, "*Audit Considerations Relating to an Entity Using a Service Organisation*," should be read in conjunction with ISA (NZ) 200, "*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*."

Title

0.1 This is the International Standard on Auditing (New Zealand) 402, *Audit Considerations Relating to an Entity Using a Service Organisation.*

Commencement

0.2 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019 (see section 27 of the Financial Reporting Act 2013).

This note is not part of the standard.
This standard was published on 18 December 2025 and takes effect on 15 January 2026.

Interpretation

0.3 In this standard ISA (NZ) 402 means the International Standard on Auditing (New Zealand) 402, *Audit Considerations Relating to an Entity Using a Service Organisation.*

Application

0.4 This standard commences to apply in relation to accounting periods that begin on or 15 December 2026.

Revocation

0.5 The standard International Standard on Auditing (New Zealand) 402 *Audit Considerations Relating to an Entity Using a Service Organisation* issued in July 2011 is revoked on the date this standard takes effect.

Transitional, savings, and related provisions

0.6 The transitional, savings, and related provisions (if any) set out in Schedule 1 have effect according to their terms.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations. Specifically, it expands on how the user auditor applies ISA (NZ) 315 ~~(Revised 2019)~~[1] and ISA (NZ) 330[2] in obtaining an understanding of the user entity, including the entity's system of internal control relevant to the preparation of the financial statements, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.

2. Many entities outsource aspects of their business to organisations that provide services ranging from performing a specific task under the direction of an entity to replacing an entity's entire business units or functions, such as the tax compliance function. Many of the services provided by such organisations are integral to the entity's business operations; however, not all those services are relevant to the audit.

3. Services provided by a service organisation are relevant to the audit of a user entity's financial statements when those services, and the controls over them, are part of the user entity's information system, the preparation of the financial statements. Most controls at the service organisation are likely to be part of the user entity's information system relevant to the preparation of the financial statements, or related controls, such as controls over the safeguarding of assets. A service organisation's services are part of a user entity's information system if these services affect any of the following:

   (a) How information relating to significant classes of transactions, account balances and disclosures flows through the user entity's information system, whether manually or using IT, and whether obtained from within or outside the general ledger and subsidiary ledgers. This includes when the service organisation's services affect how:

---

1 ISA (NZ) 315 ~~(Revised 2019)~~, *Identifying and Assessing the Risks of Material Misstatement*~~.~~

2 ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*~~.~~

(i) Transactions of the user entity are initiated, and how information about them is recorded, processed, corrected as necessary, and incorporated in the general ledger and reported in the financial statements; and

(ii) Information about events or conditions, other than transactions, is captured, processed and disclosed by the user entity in the financial statements.

(b) The accounting records, specific accounts in the user entity's financial statements and other supporting records relating to the flows of information in paragraph 3(a);

(c) The financial reporting process used to prepare the user entity's financial statements from the records described in paragraph 3(b), including as it relates to disclosures and to accounting estimates relating to significant classes of transactions, account balances and disclosures; and

(d) The entity's IT environment relevant to (a) to (c) above.

4. The nature and extent of work to be performed by the user auditor regarding the services provided by a service organisation depend on the nature and significance of those services to the user entity and the relevance of those services to the audit.

5. This ISA (NZ) does not apply to services provided by financial institutions that are limited to processing, for an entity's account held at the financial institution, transactions that are specifically authorised by the entity, such as the processing of cheque account transactions by a bank or the processing of securities transactions by a broker. In addition, this ISA (NZ) does not apply to the audit of transactions arising from proprietary financial interests in other entities, such as partnerships, corporations and joint ventures, when proprietary interests are accounted for and reported to interest holders.

Effective Date

6. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011.~~[Replaced by the NZAuASB. Refer to paragraph~~s~~ 0.4]

Objectives

7. The objectives of the user auditor, when the user entity uses the services of a service organisation, are:

(a) To obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's system of internal control, sufficient to provide an appropriate basis for the identification and assessment of the risks of material misstatement; and

(b) To design and perform audit procedures responsive to those risks.

Definitions

8. For purposes of the ISAs (NZ) , the following terms have the meanings attributed below:

(a) Complementary user entity controls – Controls that the service organisation assumes, in the design of its service, will be implemented by user entities, and

which, if necessary to achieve control objectives, are identified in the description of its system.

(b) Report on the description and design of controls at a service organisation (referred to in this ISA (NZ) as a type 1 report) – A report that comprises:

(i) A description, prepared by management of the service organisation, of the service organisation's system, control objectives and related controls that have been designed and implemented as at a specified date; and

(ii) A report by the service auditor with the objective of conveying reasonable assurance that includes the service auditor's opinion on the description of the service organisation's system, control objectives and related controls and the suitability of the design of the controls to achieve the specified control objectives.

(c) Report on the description, design, and operating effectiveness of controls at a service organisation (referred to in this ISA (NZ) as a type 2 report) – A report that comprises:

(i) A description, prepared by management of the service organisation, of the service organisation's system, control objectives and related controls, their design and implementation as at a specified date or throughout a specified period and, in some cases, their operating effectiveness throughout a specified period; and

(ii) A report by the service auditor with the objective of conveying reasonable assurance that includes:

a. The service auditor's opinion on the description of the service organisation's system, control objectives and related controls, the suitability of the design of the controls to achieve the specified control objectives, and the operating effectiveness of the controls; and

b. A description of the service auditor's tests of the controls and the results thereof.

(d) Service auditor – An auditor who, at the request of the service organisation, provides an assurance report on the controls of a service organisation.

(e) Service organisation – A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are part of those entities' information systems relevant to financial reporting.

(f) Service organisation's system – The policies and procedures designed, implemented and maintained by the service organisation to provide user entities with the services covered by the service auditor's report.

(g) Subservice organisation – A service organisation used by another service organisation to perform some of the services provided to user entities that are part of those user entities' information systems relevant to financial reporting.

(h) User auditor – An auditor who audits and reports on the financial statements of a user entity.

(i) User entity – An entity that uses a service organisation and whose financial statements are being audited.

Requirements

Obtaining an Understanding of the Services Provided by a Service Organisation, Including Internal Control

9. When obtaining an understanding of the user entity in accordance with ISA (NZ) 315 ~~(Revised 2019)~~,[3] the user auditor shall obtain an understanding of how a user entity uses the services of a service organisation in the user entity's operations, including: (Ref: Para. A1–~~–~~A2)

   (a) The nature of the services provided by the service organisation and the significance of those services to the user entity, including the effect thereof on the user entity's internal control; (Ref: Para. A3–~~–~~A5)

   (b) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation; (Ref: Para. A6)

   (c) The degree of interaction between the activities of the service organisation and those of the user entity; and (Ref: Para. A7)

   (d) The nature of the relationship between the user entity and the service organisation, including the relevant contractual terms for the activities undertaken by the service organisation. (Ref: Para. A8–~~–~~A11)

10. When obtaining an understanding of the entity's system internal control in accordance with ISA (NZ) 315 ~~(Revised 2019)~~, the user auditor shall identify controls in the control activities component[4] at the user entity, from those that relate to the services provided by the service organisation, including those that are applied to the transactions processed by the service organisation and evaluate their design and determine whether they have been implemented.[5] (Ref: Para. A12–~~–~~A14)

11. The user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's system of internal control has been obtained to provide an appropriate basis for the identification and assessment of the risks of material misstatement.

12. If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding from one or more of the following procedures:

   (a) Obtaining a type 1 or type 2 report, if available;

   (b) Contacting the service organisation, through the user entity, to obtain specific information;

   (c) Visiting the service organisation and performing procedures that will provide the necessary information about the relevant controls at the service organisation; or

---

3 ISA (NZ) 315 ~~(Revised 2019)~~, paragraph 19~~.~~

4 ISA (NZ) 315~~5~~ ~~(Revised 2019)~~, paragraph~~s~~ 26(a)

5 ISA (NZ) 315 ~~(Revised 2019)~~, paragraph 26(d)

(d) Using another auditor to perform procedures that will provide the necessary information about controls at the service organisation. (Ref: Para. A15–A20)

Using a Type 1 or Type 2 Report to Support the User Auditor's Understanding of the Service Organisation

13. In determining the sufficiency and appropriateness of the audit evidence provided by a type 1 or type 2 report, the user auditor shall be satisfied as to:

    (a) The service auditor's professional competence and independence from the service organisation; and

    (b) The adequacy of the standards under which the type 1 or type 2 report was issued. (Ref: Para. A21)

14. If the user auditor plans to use a type 1 or type 2 report as audit evidence to support the user auditor's understanding about the design and implementation of controls at the service organisation, the user auditor shall:

    (a) Evaluate whether the description and design of controls at the service organisation is at a date or for a period that is appropriate for the user auditor's purposes;

    (b) Evaluate the sufficiency and appropriateness of the evidence provided by the report for the understanding of the user entity's controls at the service organisation; and

    (c) Determine whether complementary user entity controls identified by the service organisation are relevant to the user entity and, if so, obtain an understanding of whether the user entity has designed and implemented such controls. (Ref: Para. A22–A23)

Responding to the Assessed Risks of Material Misstatement

15. In responding to assessed risks in accordance with ISA (NZ) 330, the user auditor shall:

    (a) Determine whether sufficient appropriate audit evidence concerning the relevant financial statement assertions is available from records held at the user entity; and, if not,

    (b) Perform further audit procedures to obtain sufficient appropriate audit evidence or use another auditor to perform those procedures at the service organisation on the user auditor's behalf. (Ref: Para. A24–A28)

Tests of Controls

16. When the user auditor's risk assessment includes an expectation that controls at the service organisation are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls from one or more of the following procedures:

    (a) Obtaining a type 2 report, if available;

    (b) Performing appropriate tests of controls at the service organisation; or

    (c) Using another auditor to perform tests of controls at the service organisation on behalf of the user auditor. (Ref: Para. A29–A30)

Using a Type 2 Report as Audit Evidence that Controls at the Service Organisation Are Operating Effectively

17. If, in accordance with paragraph 16(a), the user auditor plans to use a type 2 report as audit evidence that controls at the service organisation are operating effectively, the user auditor shall determine whether the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the user auditor's risk assessment by:

    (a) Evaluating whether the description, design and operating effectiveness of controls at the service organisation is at a date or for a period that is appropriate for the user auditor's purposes;

    (b) Determining whether complementary user entity controls identified by the service organisation are relevant to the user entity and, if so, obtaining an understanding of whether the user entity has designed and implemented such controls and, if so, testing their operating effectiveness;

    (c) Evaluating the adequacy of the time period covered by the tests of controls and the time elapsed since the performance of the tests of controls; and

    (d) Evaluating whether the tests of controls performed by the service auditor and the results thereof, as described in the service auditor's report, are relevant to the assertions in the user entity's financial statements and provide sufficient appropriate audit evidence to support the user auditor's risk assessment. (Ref: Para. A31–A39)

Type 1 and Type 2 Reports that Exclude the Services of a Subservice Organisation

18. If the user auditor plans to use a type 1 or a type 2 report that excludes the services provided by a subservice organisation and those services are relevant to the audit of the user entity's financial statements, the user auditor shall apply the requirements of this ISA (NZ) with respect to the services provided by the subservice organisation. (Ref: Para. A40)

Fraud, Non-Compliance with Laws and Regulations and Uncorrected Misstatements in Relation to Activities at the Service Organisation

19. The user auditor shall enquire of management of the user entity whether the service organisation has reported to the user entity, or whether the user entity is otherwise aware of, any fraud, non-compliance with laws and regulations or uncorrected misstatements affecting the financial statements of the user entity. The user auditor shall evaluate how such matters affect the nature, timing and extent of the user auditor's further audit procedures, including the effect on the user auditor's conclusions and user auditor's report. (Ref: Para. A41)

Reporting by the User Auditor

20. The user auditor shall modify the opinion in the user auditor's report in accordance with ISA (NZ) 705 ~~(Revised)~~[6] if the user auditor is unable to obtain sufficient appropriate

[6] ISA (NZ) 705 ~~(Revised)~~, *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 6.

audit evidence regarding the services provided by the service organisation relevant to the audit of the user entity's financial statements. (Ref: Para. A42)

21. The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the user auditor's report shall indicate that the reference does not diminish the user auditor's responsibility for the audit opinion. (Ref: Para. A43)

22. If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion, the user auditor's report shall indicate that such reference does not diminish the user auditor's responsibility for that opinion. (Ref: Para. A44)

***

Application and Other Explanatory Material

Obtaining an Understanding of the Services Provided by a Service Organisation, Including Internal Control

Sources of Information (Ref: Para. 9)

A1. Information on the nature of the services provided by a service organisation may be available from a wide variety of sources, such as:

- User manuals.
- System overviews.
- Technical manuals.
- The contract or service level agreement between the user entity and the service organisation.
- Reports by service organisations, the internal audit function or regulatory authorities on controls at the service organisation.
- Reports by the service auditor, including management letters, if available.

A2. Knowledge obtained through the user auditor's experience with the service organisation, for example through experience with other audit engagements, may also be helpful in obtaining an understanding of the nature of the services provided by the service organisation. This may be particularly helpful if the services and controls at the service organisation over those services are highly standardised.

Nature of the Services Provided by the Service Organisation (Ref: Para. 9(a))

A3. A user entity may use a service organisation such as one that processes transactions and maintains related accountability, or records transactions and processes related data. Service organisations that provide such services include, for example, bank trust departments that invest and service assets for employee benefit plans or for others; mortgage bankers that service mortgages for others; and application service providers that provide packaged software applications and a technology environment that enables customers to process financial and operational transactions.

A4. Examples of service organisation services that are relevant to the audit include:

- Maintenance of the user entity's accounting records.
- Management of assets.
- Initiating, recording or processing transactions as agent of the user entity.

Considerations Specific to Smaller Entities

A5. Smaller entities may use external bookkeeping services ranging from the processing of certain transactions (for example, payment of payroll taxes) and maintenance of their accounting records to the preparation of their financial statements. The use of such a service organisation for the preparation of its financial statements does not relieve management of the smaller entity and, where appropriate, those charged with governance of their responsibilities for the financial statements.[7]

Nature and Materiality of Transactions Processed by the Service Organisation (Ref: Para. 9(b))

A6. A service organisation may establish policies and procedures that affect the user entity's internal control. These policies and procedures are at least in part physically and operationally separate from the user entity. The significance of the controls of the service organisation to those of the user entity depends on the nature of the services provided by the service organisation, including the nature and materiality of the transactions it processes for the user entity. In certain situations, the transactions processed and the accounts affected by the service organisation may not appear to be material to the user entity's financial statements, but the nature of the transactions processed may be significant and the user auditor may determine that an understanding of those controls is necessary in the circumstances.

The Degree of Interaction between the Activities of the Service Organisation and the User Entity (Ref: Para. 9(c))

A7. The significance of the controls of the service organisation to those of the user entity also depends on the degree of interaction between its activities and those of the user entity. The degree of interaction refers to the extent to which a user entity is able to and elects to implement effective controls over the processing performed by the service organisation. For example, a high degree of interaction exists between the activities of the user entity and those at the service organisation when the user entity authorises transactions and the service organisation processes and does the accounting for those transactions. In these circumstances, it may be practicable for the user entity to implement effective controls over those transactions. On the other hand, when the service organisation initiates or initially records, processes, and does the accounting for the user entity's transactions, there is a lower degree of interaction between the two organisations. In these circumstances, the user entity may be unable to, or may elect not to, implement effective controls over these transactions at the user entity and may rely on controls at the service organisation.

---

[7] ISA (NZ) 200, "*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*," paragraphs 4 and A2–A3.

Nature of the Relationship between the User Entity and the Service Organisation (Ref: Para. 9(d))

A8. The contract or service level agreement between the user entity and the service organisation may provide for matters such as:

- The information to be provided to the user entity and responsibilities for initiating transactions relating to the activities undertaken by the service organisation;
- The application of requirements of regulatory bodies concerning the form of records to be maintained, or access to them;
- The indemnification, if any, to be provided to the user entity in the event of a performance failure;
- Whether the service organisation will provide a report on its controls and, if so, whether such report would be a type 1 or type 2 report;
- Whether the user auditor has rights of access to the accounting records of the user entity maintained by the service organisation and other information necessary for the conduct of the audit; and
- Whether the agreement allows for direct communication between the user auditor and the service auditor.

A9. There is a direct relationship between the service organisation and the user entity and between the service organisation and the service auditor. These relationships do not necessarily create a direct relationship between the user auditor and the service auditor. When there is no direct relationship between the user auditor and the service auditor, communications between the user auditor and the service auditor are usually conducted through the user entity and the service organisation. A direct relationship may also be created between a user auditor and a service auditor, taking into account the relevant ethical and confidentiality considerations. A user auditor, for example, may use a service auditor to perform procedures on the user auditor's behalf, such as:

(a) Tests of controls at the service organisation; or

(b) Substantive procedures on the user entity's financial statement transactions and balances maintained by a service organisation.

Considerations Specific to Public Sector Entities

A10. Public sector auditors generally have broad rights of access established by legislation. However, there may be situations where such rights of access are not available, for example when the service organisation is located in a different jurisdiction. In such cases, a public sector auditor may need to obtain an understanding of the legislation applicable in the different jurisdiction to determine whether appropriate access rights can be obtained. A public sector auditor may also obtain or ask the user entity to incorporate rights of access in any contractual arrangements between the user entity and the service organisation.

A11. Public sector auditors may also use another auditor to perform tests of controls or substantive procedures in relation to compliance with law, regulation or other authority.

Understanding the Controls Relating to Services Provided by the Service Organisation (Ref: Para. 10)

A12. The user entity may establish controls over the service organisation's services that may be tested by the user auditor and that may enable the user auditor to conclude that the user entity's controls are operating effectively for some or all of the related assertions, regardless of the controls in place at the service organisation. If a user entity, for example, uses a service organisation to process its payroll transactions, the user entity may establish controls over the submission and receipt of payroll information that could prevent or detect material misstatements. These controls may include:

- Comparing the data submitted to the service organisation with reports of information received from the service organisation after the data has been processed.
- Recomputing a sample of the payroll amounts for clerical accuracy and reviewing the total amount of the payroll for reasonableness.

A13. In this situation, the user auditor may perform tests of the user entity's controls over payroll processing that would provide a basis for the user auditor to conclude that the user entity's controls are operating effectively for the assertions related to payroll transactions.

A14. As noted in ISA (NZ) 315 ~~(Revised 2019)~~,[8] in respect of some risks, the user auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions and account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. Such automated processing characteristics may be particularly present when the user entity uses service organisations. In such cases, the user entity's controls over such risks are relevant to the audit and the user auditor is required to obtain an understanding of, and to evaluate, such controls in accordance with paragraphs 9 and 10 of this ISA (NZ).

Further Procedures When a Sufficient Understanding Cannot Be Obtained from the User Entity (Ref: Para. 12)

A15. The user auditor's decision as to which procedure, individually or in combination, in paragraph 12 to undertake, in order to obtain the information necessary to provide a basis for the identification and assessment of the risks of material misstatement in relation to the user entity's use of the service organisation, may be influenced by such matters as:

- The size of both the user entity and the service organisation;
- The complexity of the transactions at the user entity and the complexity of the services provided by the service organisation;
- The location of the service organisation (for example, the user auditor may decide to use another auditor to perform procedures at the service organisation on the user auditor's behalf if the service organisation is in a remote location);

---

[8] ISA (NZ) 315 ~~(Revised),~~ paragraph ~~26(a)(iii)~~33~~.~~

- Whether the procedure(s) is expected to effectively provide the user auditor with sufficient appropriate audit evidence; and
- The nature of the relationship between the user entity and the service organisation.

A16. A service organisation may engage a service auditor to report on the description and design of its controls (type 1 report) or on the description and design of its controls and their operating effectiveness (type 2 report). Type 1 or type 2 reports may be issued under International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3402[9] or under standards established by an authorised or recognised standards setting organisation (which may identify them by different names, such as Type A or Type B reports).

A17. The availability of a type 1 or type 2 report will generally depend on whether the contract between a service organisation and a user entity includes the provision of such a report by the service organisation. A service organisation may also elect, for practical reasons, to make a type 1 or type 2 report available to the user entities. However, in some cases, a type 1 or type 2 report may not be available to user entities.

A18. In some circumstances, a user entity may outsource one or more significant business units or functions, such as its entire tax planning and compliance functions, or finance and accounting or the controllership function to one or more service organisations. As a report on controls at the service organisation may not be available in these circumstances, visiting the service organisation may be the most effective procedure for the user auditor to gain an understanding of controls at the service organisation, as there is likely to be direct interaction of management of the user entity with management at the service organisation.

A19. Another auditor may be used to perform procedures that will provide the necessary information about the relevant controls at the service organisation related to services provided to the user entity. If a type 1 or type 2 report has been issued, the user auditor may use the service auditor to perform these procedures as the service auditor has an existing relationship with the service organisation. The user auditor using the work of another auditor may find the guidance in ISA (NZ) 220 ~~(Revised)~~[10] useful as it relates to determining the competence and capabilities of the other auditor (including that auditor's independence), the direction and supervision of the other auditor, the nature, timing and extent of the work assigned to the other auditor, and evaluating the sufficiency and appropriateness of the audit evidence obtained.

A20. A user entity may use a service organisation that in turn uses a subservice organisation to provide some of the services provided to a user entity that are part of the user entity's information system relevant to financial reporting. The subservice organisation may be a separate entity from the service organisation or may be related to the service organisation. A user auditor may need to consider controls at the subservice organisation. In situations where one or more subservice organisations are used, the interaction between the activities of the user entity and those of the service organisation is expanded to include the interaction between the user entity, the service organisation and the subservice organisations. The degree of this interaction, as well as the nature and materiality of the

---

9 ISAE (NZ) 3402, ~~"~~*Assurance Reports on Controls at a Third-Party Service Organisation~~*.~~"~~*n*

10 ISA (NZ) 220 ~~(Revised)~~, *Quality Management of an Audit of Financial Statements*

transactions processed by the service organisation and the subservice organisations are the most important factors for the user auditor to consider in determining the significance of the service organisation's and subservice organisation's controls to the user entity's controls.

Using a Type 1 or Type 2 Report to Support the User Auditor's Understanding of the Service Organisation (Ref: Para. 13–14)

A21. The user auditor may make enquiries about the service auditor to the service auditor's professional organisation or other practitioners and enquire whether the service auditor is subject to regulatory oversight. The service auditor may be practising in a jurisdiction where different standards are followed in respect of reports on controls at a service organisation, and the user auditor may obtain information about the standards used by the service auditor from the standard setting organisation.

A22. A type 1 or type 2 report, along with information about the user entity, may assist the user auditor in obtaining an understanding of:

(a) The aspects of controls at the service organisation that may affect the processing of the user entity's transactions, including the use of subservice organisations;

(b) The flow of significant transactions through the service organisation to determine the points in the transaction flow where material misstatements in the user entity's financial statements could occur;

(c) The control objectives at the service organisation that are relevant to the user entity's financial statement assertions; and

(d) Whether controls at the service organisation are suitably designed and implemented to prevent or detect processing errors that could result in material misstatements in the user entity's financial statements.

A type 1 or type 2 report may assist the user auditor in obtaining a sufficient understanding to identify and assess the risks of material misstatement. A type 1 report, however, does not provide any evidence of the operating effectiveness of the controls.

A23. A type 1 or type 2 report that is as of a date or for a period that is outside of the reporting period of a user entity may assist the user auditor in obtaining a preliminary understanding of the controls implemented at the service organisation if the report is supplemented by additional current information from other sources. If the service organisation's description of controls is as of a date or for a period that precedes the beginning of the period under audit, the user auditor may perform procedures to update the information in a type 1 or type 2 report, such as:

- Discussing the changes at the service organisation with user entity personnel who would be in a position to know of such changes;
- Reviewing current documentation and correspondence issued by the service organisation; or
- Discussing the changes with service organisation personnel.

Responding to the Assessed Risks of Material Misstatement (Ref: Para. 15)

A24. Whether the use of a service organisation increases a user entity's risk of material misstatement depends on the nature of the services provided and the controls over these services; in some cases, the use of a service organisation may decrease a user entity's risk of material misstatement, particularly if the user entity itself does not possess the expertise necessary to undertake particular activities, such as initiating, processing, and recording transactions, or does not have adequate resources (for example, an IT system).

A25. When the service organisation maintains material elements of the accounting records of the user entity, direct access to those records may be necessary in order for the user auditor to obtain sufficient appropriate audit evidence relating to the operations of controls over those records or to substantiate transactions and balances recorded in them, or both. Such access may involve either physical inspection of records at the service organisation's premises or interrogation of records maintained electronically from the user entity or another location, or both. Where direct access is achieved electronically, the user auditor may thereby obtain evidence as to the adequacy of controls operated by the service organisation over the completeness and integrity of the user entity's data for which the service organisation is responsible.

A26. In determining the nature and extent of audit evidence to be obtained in relation to balances representing assets held or transactions undertaken by a service organisation on behalf of the user entity, the following procedures may be considered by the user auditor:

(a) Inspecting records and documents held by the user entity: the reliability of this source of evidence is determined by the nature and extent of the accounting records and supporting documentation retained by the user entity. In some cases, the user entity may not maintain independent detailed records or documentation of specific transactions undertaken on its behalf.

(b) Inspecting records and documents held by the service organisation: the user auditor's access to the records of the service organisation may be established as part of the contractual arrangements between the user entity and the service organisation. The user auditor may also use another auditor, on its behalf, to gain access to the user entity's records maintained by the service organisation.

(c) Obtaining confirmations of balances and transactions from the service organisation: where the user entity maintains independent records of balances and transactions, confirmation from the service organisation corroborating the user entity's records may constitute reliable audit evidence concerning the existence of the transactions and assets concerned. For example, when multiple service organisations are used, such as an investment manager and a custodian, and these service organisations maintain independent records, the user auditor may confirm balances with these organisations in order to compare this information with the independent records of the user entity.

If the user entity does not maintain independent records, information obtained in confirmations from the service organisation is merely a statement of what is reflected in the records maintained by the service organisation. Therefore, such confirmations do not, taken alone, constitute reliable audit evidence. In these

circumstances, the user auditor may consider whether an alternative source of independent evidence can be identified.

(d) Performing analytical procedures on the records maintained by the user entity or on the reports received from the service organisation: the effectiveness of analytical procedures is likely to vary by assertion and will be affected by the extent and detail of information available.

A27. Another auditor may perform procedures that are substantive in nature for the benefit of user auditors. Such an engagement may involve the performance, by another auditor, of procedures agreed upon by the user entity and its user auditor and by the service organisation and its service auditor. The findings resulting from the procedures performed by another auditor are reviewed by the user auditor to determine whether they constitute sufficient appropriate audit evidence. In addition, there may be requirements imposed by governmental authorities or through contractual arrangements whereby a service auditor performs designated procedures that are substantive in nature. The results of the application of the required procedures to balances and transactions processed by the service organisation may be used by user auditors as part of the evidence necessary to support their audit opinions. In these circumstances, it may be useful for the user auditor and the service auditor to agree, prior to the performance of the procedures, to the audit documentation or access to audit documentation that will be provided to the user auditor.

A28. In certain circumstances, in particular when a user entity outsources some or all of its finance function to a service organisation, the user auditor may face a situation where a significant portion of the audit evidence resides at the service organisation. Substantive procedures may need to be performed at the service organisation by the user auditor or another auditor on its behalf. A service auditor may provide a type 2 report and, in addition, may perform substantive procedures on behalf of the user auditor. The involvement of another auditor does not alter the user auditor's responsibility to obtain sufficient appropriate audit evidence to afford a reasonable basis to support the user auditor's opinion. Accordingly, the user auditor's consideration of whether sufficient appropriate audit evidence has been obtained and whether the user auditor needs to perform further substantive procedures includes the user auditor's involvement with, or evidence of, the direction, supervision and performance of the substantive procedures performed by another auditor.

Tests of Controls (Ref: Para. 16)

A29. The user auditor is required by ISA (NZ) 330[11] to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of controls in certain circumstances. In the context of a service organisation, this requirement applies when:

(a) The user auditor's assessment of risks of material misstatement includes an expectation that the controls at the service organisation are operating effectively (that is, the user auditor intends to rely on the operating effectiveness of controls at the service organisation in determining the nature, timing and extent of substantive procedures); or

[11] ISA (NZ) 330, paragraph 8.

(b) Substantive procedures alone, or in combination with tests of the operating effectiveness of controls at the user entity, cannot provide sufficient appropriate audit evidence at the assertion level.

A30. If a type 2 report is not available, a user auditor may contact the service organisation, through the user entity, to request that a service auditor be engaged to provide a type 2 report that includes tests of the operating effectiveness of the controls or the user auditor may use another auditor to perform procedures at the service organisation that test the operating effectiveness of those controls. A user auditor may also visit the service organisation and perform tests of controls if the service organisation agrees to it. The user auditor's risk assessments are based on the combined evidence provided by the work of another auditor and the user auditor's own procedures.

Using a Type 2 Report as Audit Evidence that Controls at the Service Organisation Are Operating Effectively (Ref: Para. 17)

A31. A type 2 report may be intended to satisfy the needs of several different user auditors; therefore tests of controls and results described in the service auditor's report may not be relevant to assertions that are significant in the user entity's financial statements. The relevant tests of controls and results are evaluated to determine that the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the user auditor's risk assessment. In doing so, the user auditor may consider the following factors:

(a) The time period covered by the tests of controls and the time elapsed since the performance of the tests of controls;

(b) The scope of the service auditor's work and the services and processes covered, the controls tested and tests that were performed, and the way in which tested controls relate to the user entity's controls; and

(c) The results of those tests of controls and the service auditor's opinion on the operating effectiveness of the controls.

A32. For certain assertions, the shorter the period covered by a specific test and the longer the time elapsed since the performance of the test, the less audit evidence the test may provide. In comparing the period covered by the type 2 report to the user entity's financial reporting period, the user auditor may conclude that the type 2 report offers less audit evidence if there is little overlap between the period covered by the type 2 report and the period for which the user auditor intends to rely on the report. When this is the case, a type 2 report covering a preceding or subsequent period may provide additional audit evidence. In other cases, the user auditor may determine it is necessary to perform, or use another auditor to perform, tests of controls at the service organisation in order to obtain sufficient appropriate audit evidence about the operating effectiveness of those controls.

A33. It may also be necessary for the user auditor to obtain additional evidence about significant changes to the relevant controls at the service organisation outside of the period covered by the type 2 report or determine additional audit procedures to be performed. Relevant factors in determining what additional audit evidence to obtain about controls at the service organisation that were operating outside of the period covered by the service auditor's report may include:

- The significance of the assessed risks of material misstatement at the assertion level;
- The specific controls that were tested during the interim period, and significant changes to them since they were tested, including changes in the information system, processes, and personnel;
- The degree to which audit evidence about the operating effectiveness of those controls was obtained;
- The length of the remaining period;
- The extent to which the user auditor intends to reduce further substantive procedures based on the reliance on controls; and
- The effectiveness of the control environment and the user entity's process to monitor the system of internal control.

A34. Additional audit evidence may be obtained, for example, by extending tests of controls over the remaining period or testing the user entity's process to monitor the system of internal control.

A35. If the service auditor's testing period is completely outside the user entity's financial reporting period, the user auditor will be unable to rely on such tests for the user auditor to conclude that the user entity's controls are operating effectively because they do not provide current audit period evidence of the effectiveness of the controls, unless other procedures are performed.

A36. In certain circumstances, a service provided by the service organisation may be designed with the assumption that certain controls will be implemented by the user entity. For example, the service may be designed with the assumption that the user entity will have controls in place for authorising transactions before they are sent to the service organisation for processing. In such a situation, the service organisation's description of controls may include a description of those complementary user entity controls. The user auditor considers whether those complementary user entity controls are relevant to the service provided to the user entity.

A37. If the user auditor believes that the service auditor's report may not provide sufficient appropriate audit evidence, for example, if a service auditor's report does not contain a description of the service auditor's tests of controls and results thereon, the user auditor may supplement the understanding of the service auditor's procedures and conclusions by contacting the service organisation, through the user entity, to request a discussion with the service auditor about the scope and results of the service auditor's work. Also, if the user auditor believes it is necessary, the user auditor may contact the service organisation, through the user entity, to request that the service auditor perform procedures at the service organisation. Alternatively, the user auditor, or another auditor at the request of the user auditor, may perform such procedures.

A38. The service auditor's type 2 report identifies results of tests, including exceptions and other information that could affect the user auditor's conclusions. Exceptions noted by the service auditor or a modified opinion in the service auditor's type 2 report do not automatically mean that the service auditor's type 2 report will not be useful for the audit of the user entity's financial statements in assessing the risks of material

misstatement. Rather, the exceptions and the matter giving rise to a modified opinion in the service auditor's type 2 report are considered in the user auditor's assessment of the testing of controls performed by the service auditor. In considering the exceptions and matters giving rise to a modified opinion, the user auditor may discuss such matters with the service auditor. Such communication is dependent upon the user entity contacting the service organisation, and obtaining the service organisation's approval for the communication to take place.

Communication of deficiencies in internal control identified during the audit

A39. The user auditor is required to communicate in writing significant deficiencies identified during the audit to both management and those charged with governance on a timely basis.[12] The user auditor is also required to communicate to management at an appropriate level of responsibility on a timely basis other deficiencies in internal control identified during the audit that, in the user auditor's professional judgement, are of sufficient importance to merit management's attention.[13] Matters that the user auditor may identify during the audit and may communicate to management and those charged with governance of the user entity include:

- Any controls within the entity's process to monitor the system of internal control that could be implemented by the user entity, including those identified as a result of obtaining a type 1 or type 2 report;
- Instances where complementary user entity controls are noted in the type 1 or type 2 report and are not implemented at the user entity; and
- Controls that may be needed at the service organisation that do not appear to have been implemented or that are not specifically covered by a type 2 report.

Type 1 and Type 2 Reports that Exclude the Services of a Subservice Organisation (Ref: Para. 18)

A40. If a service organisation uses a subservice organisation, the service auditor's report may either include or exclude the subservice organisation's relevant control objectives and related controls in the service organisation's description of its system and in the scope of the service auditor's engagement. These two methods of reporting are known as the inclusive method and the carve-out method, respectively. If the type 1 or type 2 report excludes the controls at a subservice organisation, and the services provided by the subservice organisation are relevant to the audit of the user entity's financial statements, the user auditor is required to apply the requirements of this ISA (NZ) in respect of the subservice organisation. The nature and extent of work to be performed by the user auditor regarding the services provided by a subservice organisation depend on the nature and significance of those services to the user entity and the relevance of those services to the audit. The application of the requirement in paragraph 9 assists the user auditor in determining the effect of the subservice organisation and the nature and extent of work to be performed.

---

12 ISA (NZ) 265, *"Communicating Deficiencies in Internal Control to Those Charged with Governance and Management"*, paragraphs 9–10.

13 ISA (NZ) 265, paragraph 10.

Fraud, Non-Compliance with Laws and Regulations and Uncorrected Misstatements in Relation to Activities at the Service Organisation (Ref: Para. 19)

A41. A service organisation may be required under the terms of the contract with user entities to disclose to affected user entities any fraud, non-compliance with laws and regulations or uncorrected misstatements attributable to the service organisation's management or employees. As required by paragraph 19, the user auditor makes enquiries of the user entity management regarding whether the service organisation has reported any such matters and evaluates whether any matters reported by the service organisation affect the nature, timing and extent of the user auditor's further audit procedures. In certain circumstances, the user auditor may require additional information to perform this evaluation, and may request the user entity to contact the service organisation to obtain the necessary information.

Reporting by the User Auditor (Ref: Para. 20)

A42. When a user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organisation relevant to the audit of the user entity's financial statements, a limitation on the scope of the audit exists. This may be the case when:

- The user auditor is unable to obtain a sufficient understanding of the services provided by the service organisation and does not have a basis for the identification and assessment of the risks of material misstatement;
- A user auditor's risk assessment includes an expectation that controls at the service organisation are operating effectively and the user auditor is unable to obtain sufficient appropriate audit evidence about the operating effectiveness of these controls; or
- Sufficient appropriate audit evidence is only available from records held at the service organisation, and the user auditor is unable to obtain direct access to these records.

Whether the user auditor expresses a qualified opinion or disclaims an opinion depends on the user auditor's conclusion as to whether the possible effects on the financial statements are material or pervasive.

Reference to the Work of a Service Auditor (Ref: Para. 21–22)

A43. In some cases, law or regulation may require a reference to the work of a service auditor in the user auditor's report, for example, for the purposes of transparency in the public sector. In such circumstances, the user auditor may need the consent of the service auditor before making such a reference.

A44. The fact that a user entity uses a service organisation does not alter the user auditor's responsibility under ISAs (NZ) to obtain sufficient appropriate audit evidence to afford a reasonable basis to support the user auditor's opinion. Therefore, the user auditor does not make reference to the service auditor's report as a basis, in part, for the user auditor's opinion on the user entity's financial statements. However, when the user auditor expresses a modified opinion because of a modified opinion in a service auditor's report, the user auditor is not precluded from referring to the service auditor's report if such reference assists in explaining the reason for the user auditor's modified opinion. In

such circumstances, the user auditor may need the consent of the service auditor before making such a reference.

Schedule 1

Transitional, savings, and related provisions

Part 1 Provisions relating to this standard as made

There are no transitional, savings, or related provisions in this standard as made.

Made at Wellington on 12 December 2025

John Kensington

Chair

External Reporting Board

Explanatory and other information

These notes and other information are not part of the standard

Explanatory note

This standard is the International Standard on Auditing (New Zealand) 402, *Audit Considerations Relating to an Entity Using a Service Organisation.*

This standard is the New Zealand equivalent of International Standard on Auditing 402, *Audit Considerations Relating to an Entity Using a Service Organisation,* and results from revisions to international standards issued by the International Auditing and Assurance Standards Board relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

This standard applies to accounting periods that begin on or after 15 December 2026.

The standard was approved by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board.

This standard revokes the ISA (NZ) 402 *Audit Considerations Relating to an Entity Using a Service Organisation* issued in July 2011. However, that standard continues to apply in relation to accounting periods that begin before 15 December 2026 as if it had not been revoked. (see Legislation Act 2019).

Conformity with International Standards on Auditing

This Standard conforms to International Standard on Auditing ISA 402, *Audit Considerations Relating to an Entity Using a Service Organisation*, issued by the International Auditing and Assurance Standards Board.

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix "NZ".

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 402.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*.

ASA 402 conforms to ISA 402.

Copyright

The Standard above is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and

Assurance Standards Board ("IAASB"). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at https://www.xrb.govt.nz/about-xrb/contact-us/

ISBN 978-1-99-100584-7

History of Amendments

Table of instruments – ISA (NZ) 402

This table lists the instruments amending this standard.

Instrument	Date made	Application date

Minimum Legislative Information

This Standard is secondary legislation published under the Legislation Act 2019.

Title	International Standard on Auditing (New Zealand) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*
Principal or amendment	Principal
Consolidated version	No
Empowering Act and provisions	Section 12(b) of the Financial Reporting Act 2013.
Replacement empowering Act and provision	
Maker name	External Reporting Board
Administering agency	External Reporting Board
Date made	12 December 2025
Publication date	18 December 2025
Notification date	18 December 2025
Commencement date	This standard takes effect on 15 January 2026.
End date	
Consolidation as at date	
Related instruments	

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

[XRB] 2025/18

This secondary legislation is administered by the External Reporting Board.
For more information please see:
Website: www.xrb.govt.nz
Contact phone: +64 4 550 2030
Contact address: Level 6/154 Featherston St, Wellington, 6011

There is an explanatory note at the end of this standard that sets out how and from when this standard operates.

International Standard on Auditing (New Zealand) 501, *Audit Evidence – Specific Considerations for Selected Items*

This Standard is made under section 12(b) of the Financial Reporting Act 2013 by the External Reporting Board after complying with section 22 of that Act.

CONTENTS

	Paragraph
~~History of Amendments~~	
Title	0.1
Commencement	0.2
Interpretation	0.3
Application	0.4
Revocation	0.5
Transitional, savings, and related provisions	0.6
Introduction	
Scope of this ISA (NZ)	1
Effective Date	2
Objective	3
Requirements	
Inventory	4–8
Litigation and Claims	9–12
Segment Information	13

Application and Other Explanatory Material

Inventory A1–A16

Litigation and Claims A17–A25

Segment Information A26–A27

[NZ] Appendix 1: Example of a Letter of Specific Enquiry to External Legal Counsel

~~Accompanying Attachment: Conformity to the International Standards on Auditing~~

Schedule 1

International Standard on Auditing (New Zealand) (ISA (NZ)) 501, "*Audit Evidence – Specific Considerations for Selected Items*," should be read in conjunction with ISA (NZ) 200, "*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*."

Title

0.1 This is the International Standard on Auditing (New Zealand) 501, *Audit Evidence – Specific Considerations for Selected Items.*

Commencement

0.2 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019 (see section 27 of the Financial Reporting Act 2013).

This note is not part of the standard.
This standard was published on 18 December 2025 and takes effect on 15 January 2026.

Interpretation

0.3 In this standard ISA (NZ) 501 means the International Standard on Auditing (New Zealand) 501, *Audit Evidence – Specific Considerations for Selected Items*.

Application

0.4 This standard commences to apply in relation to accounting periods that begin on or 15 December 2026.

Revocation

0.5 The standard International Standard on Auditing (New Zealand) 501 *Audit Evidence – Specific Considerations for Selected Items* issued in July 2011 is revoked on the date

this standard takes effect.

Transitional, savings, and related provisions

0.6 The transitional, savings, and related provisions (if any) set out in Schedule 1 have effect according to their terms.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with ISA (NZ) 330,[1] ISA (NZ) 500[2] and other relevant ISAs (NZ), with respect to certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of financial statements.

Effective Date

2. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011.~~ [Replaced by the NZAuASB. Refer to paragraph 0.4]

Objective

3. The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the:

   (a) Existence and condition of inventory;

   (b) Completeness of litigation and claims involving the entity; and

   (c) Presentation and disclosure of segment information in accordance with the applicable financial reporting framework.

Requirements

Inventory

4. If inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:

   (a) Attendance at physical inventory counting, unless impracticable, to: (Ref: Para. A1–A3)

      (i) Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting; (Ref: Para. A4)

      (ii) Observe the performance of management's count procedures; (Ref: Para. A5)

      (iii) Inspect the inventory; and (Ref: Para. A6)

      (iv) Perform test counts; and (Ref: Para. A7–A8)

---

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

2 ISA (NZ) 500, *Audit Evidence*.

(b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.

5. If physical inventory counting is conducted at a date other than the date of the financial statements, the auditor shall, in addition to the procedures required by paragraph 4, perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded. (Ref: Para. A9–A11)

6. If the auditor is unable to attend physical inventory counting due to unforeseen circumstances, the auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions.

7. If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with ISA (NZ) 705 (Revised).[3] (Ref: Para. A12–A14)

8. If inventory under the custody and control of a third party is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by performing one or both of the following:

   (a) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity. (Ref: Para. A15)

   (b) Perform inspection or other audit procedures appropriate in the circumstances. (Ref: Para. A16)

Litigation and Claims

9. The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including: (Ref: Para. A17–A19)

   (a) Enquiry of management and, where applicable, others within the entity, including in-house legal counsel;

   (b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel; and

   (c) Reviewing legal expense accounts. (Ref: Para. A20)

10. If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, in addition to the procedures required by other ISAs (NZ), seek direct communication with the entity's external legal counsel. The auditor shall do so through a letter of enquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor. If law, regulation or the respective legal professional body prohibits the entity's external legal counsel from communicating directly with the auditor, the auditor shall perform alternative audit procedures. (Ref: Para. A21–A25)

---

[3] ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*.

In-house and/or External Legal Counsel

NZ10.1 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. (Ref: Para. NZ A24.1—NZ A24.2)

11. If:

    (a) management refuses to give the auditor permission to communicate or meet with the entity's legal counsel, or the entity's legal counsel refuses to respond appropriately to the letter of enquiry, or is prohibited from responding (Ref: Para. NZ A24.3 – NZ A24.4); and

    (b) the auditor is unable to obtain sufficient appropriate audit evidence by performing alternative audit procedures (Ref: Para. NZ A24.5—NZ A24.6),

    the auditor shall modify the opinion in the auditor's report in accordance with ISA (NZ) 705 ~~(Revised)~~ (Ref: Para. NZ A24.7).

Written Representations

12. [Amended by the NZAuASB.]

NZ12.1 The auditor shall request those charged with governance to provide written representations that all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Segment Information

13. The auditor shall obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework by: (Ref: Para. A26)

    (a) Obtaining an understanding of the methods used by management in determining segment information, and: (Ref: Para. A27)

        (i) Evaluating whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework; and

        (ii) Where appropriate, testing the application of such methods; and

    (b) Performing analytical procedures or other audit procedures appropriate in the circumstances.

***

Application and Other Explanatory Material

Inventory

Attendance at Physical Inventory Counting (Ref: Para. 4(a))

A1. Management ordinarily establishes procedures under which inventory is physically counted at least once a year to serve as a basis for the preparation of the financial statements and, if applicable, to ascertain the reliability of the entity's perpetual inventory system.

~~NZA1.1 It is the responsibility of management, with the oversight of those charged with governance of an entity, to adopt policies and procedures to identify, evaluate, record and report on the outcome of any material litigation and claims. However, since the factors that would be considered in the accounting for and reporting of litigation and claims are within the direct knowledge and control of the management of an entity, management is the primary source of information. Ordinarily, the auditor would seek audit evidence from different sources to corroborate management's assertions.~~

A2. Attendance at physical inventory counting involves:

- Inspecting the inventory to ascertain its existence and evaluate its condition, and performing test counts;
- Observing compliance with management's instructions and the performance of procedures for recording and controlling the results of the physical inventory count; and
- Obtaining audit evidence as to the reliability of management's count procedures.

These procedures may serve as tests of controls or substantive procedures depending on the auditor's risk assessment, planned approach and the specific procedures carried out.

A3. Matters relevant in planning attendance at physical inventory counting (or in designing and performing audit procedures pursuant to paragraphs 4~~–~~8 of this ISA (NZ)) include, for example:

- The risks of material misstatement related to inventory.
- The nature of the internal control related to inventory.
- Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting.
- The timing of physical inventory counting.
- Whether the entity maintains a perpetual inventory system.
- The locations at which inventory is held, including the materiality of the inventory and the risks of material misstatement at different locations, in deciding at which locations attendance is appropriate.
- Whether the assistance of an auditor's expert is needed. ISA (NZ) 620[4] deals with the use of an auditor's expert to assist the auditor to obtain sufficient appropriate audit evidence.

Evaluate Management's Instructions and Procedures (Ref: Para. 4(a)(i))

[4] ISA (NZ) 620, *Using the Work of an Auditor's Expert*~~.~~

A4. Matters relevant in evaluating management's instructions and procedures for recording and controlling the physical inventory counting include whether they address, for example:

- The application of appropriate controls, for example, collection of used physical inventory count records, accounting for unused physical inventory count records, and count and re-count procedures.
- The accurate identification of the stage of completion of work in progress, of slow moving, obsolete or damaged items and of inventory owned by a third party, for example, on consignment.
- The procedures used to estimate physical quantities, where applicable, such as may be needed in estimating the physical quantity of a coal pile.
- Control over the movement of inventory between areas and the shipping and receipt of inventory before and after the cutoff date.

Observe the Performance of Management's Count Procedures (Ref: Para. 4(a)(ii))

A5. Observing the performance of management's count procedures, for example those relating to control over the movement of inventory before, during and after the count, assists the auditor in obtaining audit evidence that management's instructions and count procedures are adequately designed and implemented. In addition, the auditor may obtain copies of cutoff information, such as details of the movement of inventory, to assist the auditor in performing audit procedures over the accounting for such movements at a later date.

Inspect the Inventory (Ref: Para. 4(a)(iii))

A6. Inspecting inventory when attending physical inventory counting assists the auditor in ascertaining the existence of the inventory (though not necessarily its ownership), and in identifying, for example, obsolete, damaged or ageing inventory.

Perform Test Counts (Ref: Para. 4(a)(iv))

A7. Performing test counts, for example by tracing items selected from management's count records to the physical inventory and tracing items selected from the physical inventory to management's count records, provides audit evidence about the completeness and the accuracy of those records.

A8. In addition to recording the auditor's test counts, obtaining copies of management's completed physical inventory count records assists the auditor in performing subsequent audit procedures to determine whether the entity's final inventory records accurately reflect actual inventory count results.

Physical Inventory Counting Conducted Other than at the Date of the Financial Statements (Ref: Para. 5)

A9. For practical reasons, the physical inventory counting may be conducted at a date, or dates, other than the date of the financial statements. This may be done irrespective of whether management determines inventory quantities by an annual physical inventory counting or maintains a perpetual inventory system. In either case, the effectiveness of the design, implementation and maintenance of controls over changes in inventory

determines whether the conduct of physical inventory counting at a date, or dates, other than the date of the financial statements is appropriate for audit purposes. ISA (NZ) 330 establishes requirements and provides guidance on substantive procedures performed at an interim date.[5]

A10. Where a perpetual inventory system is maintained, management may perform physical counts or other tests to ascertain the reliability of inventory quantity information included in the entity's perpetual inventory records. In some cases, management or the auditor may identify differences between the perpetual inventory records and actual physical inventory quantities on hand; this may indicate that the controls over changes in inventory are not operating effectively.

A11. Relevant matters for consideration when designing audit procedures to obtain audit evidence about whether changes in inventory amounts between the count date, or dates, and the final inventory records are properly recorded include:

- Whether the perpetual inventory records are properly adjusted.
- Reliability of the entity's perpetual inventory records.
- Reasons for significant differences between the information obtained during the physical count and the perpetual inventory records.

Attendance at Physical Inventory Counting Is Impracticable (Ref: Para. 7)

A12. In some cases, attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory, for example, where inventory is held in a location that may pose threats to the safety of the auditor. The matter of general inconvenience to the auditor, however, is not sufficient to support a decision by the auditor that attendance is impracticable. Further, as explained in ISA (NZ) 200[6] the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.

A13. In some cases where attendance is impracticable, alternative audit procedures, for example inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory counting, may provide sufficient appropriate audit evidence about the existence and condition of inventory.

A14. In other cases, however, it may not be possible to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by performing alternative audit procedures. In such cases, ISA (NZ) 7055 ~~(Revised)~~ requires the auditor to modify the opinion in the auditor's report as a result of the scope limitation.[7]

Inventory under the Custody and Control of a Third Party

Confirmation (Ref: Para. 8(a))

---

5 ISA (NZ) 330, paragraphs 22–~~–~~23~~.~~

6 ISA (NZ) 200, *Overall Objectives of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph A548~~.~~

7 ISA (NZ) 705 ~~(Revised)~~, paragraph 13~~.~~

A15. ISA (NZ) 505[8] establishes requirements and provides guidance for performing external confirmation procedures.

Other Audit Procedures (Ref: Para. 8(b))

A16. Depending on the circumstances, for example where information is obtained that raises doubt about the integrity and objectivity of the third party, the auditor may consider it appropriate to perform other audit procedures instead of, or in addition to, confirmation with the third party. Examples of other audit procedures include:

- Attending, or arranging for another auditor to attend, the third party's physical counting of inventory, if practicable.
- Obtaining another auditor's report, or a service auditor's report, on the adequacy of the third party's internal control for ensuring that inventory is properly counted and adequately safeguarded.
- Inspecting documentation regarding inventory held by third parties, for example, warehouse receipts.
- Requesting confirmation from other parties when inventory has been pledged as collateral.

Litigation and Claims

Completeness of Litigations and Claims (Ref: Para. 9)

A17. Litigation and claims involving the entity may have a material effect on the financial statements and thus may be required to be disclosed or accounted for in the financial statements.

NZA17.1 It is the responsibility of management, with the oversight of those charged with governance of an entity, to adopt policies and procedures to identify, evaluate, record and report on the outcome of any material litigation and claims. However, since the factors that would be considered in the accounting for and reporting of litigation and claims are within the direct knowledge and control of the management of an entity, management is the primary source of information. Ordinarily, the auditor would seek audit evidence from different sources to corroborate management's assertions.

A18. In addition to the procedures identified in paragraph 9, other relevant procedures include, for example, using information obtained through risk assessment procedures carried out as part of obtaining an understanding of the entity and its environment to assist the auditor to become aware of litigation and claims involving the entity.

NZA18.1 The procedures identified in paragraphs 10 and A18 would ordinarily include the following:

- Reviewing and discussing with management the procedures within the entity's internal control structure for identifying and recording litigation and claims and bringing them to the attention of management;

[8] ISA (NZ) 505, *External Confirmations*.

- Reviewing and discussing with management the procedures within the entity's internal control structure for the identification, control and recording of litigation and claims and associated revenues and expenses in appropriate accounts; and
- Obtaining and discussing with management:
  - (i) A list of litigation and claims, including a description of the matters and an estimate of their likely financial consequences; and
  - (ii) An analysis identifying litigation and claims.

NZA18.2 Audit procedures that are undertaken for different purposes might also identify litigation and claims. Such procedures include:

- Examining contracts, loan agreements, leases, insurance policies and claims, and other correspondence;
- Reading minutes of meetings of the audit committee, shareholders and appropriate committees;
- Obtaining information concerning guarantees from bank confirmations; and
- Enquiries of management and other employees of the entity.

A19. Audit evidence obtained for purposes of identifying litigation and claims that may give rise to a risk of material misstatement also may provide audit evidence regarding other relevant considerations, such as valuation or measurement, regarding litigation and claims. ISA (NZ) 540[9] establishes requirements and provides guidance relevant to the auditor's consideration of litigation and claims requiring accounting estimates or related disclosures in the financial statements.

Reviewing Legal Expense Accounts (Ref: Para. 9(c))

A20. Depending on the circumstances, the auditor may judge it appropriate to examine related source documents, such as invoices for legal expenses, as part of the auditor's review of legal expense accounts.

Communication with the Entity's External Legal Counsel (Ref: Para. 10–11)

A21. Direct communication with the entity's external legal counsel assists the auditor in obtaining sufficient appropriate audit evidence as to whether potentially material litigation and claims are known and estimates of the financial implications, including costs, are reasonable.

A22. In some cases, the auditor may seek direct communication with the entity's external legal counsel through a letter of general enquiry. For this purpose, a letter of general enquiry requests the entity's external legal counsel to inform the auditor of any litigation and claims that the counsel is aware of, together with an assessment of the outcome of the litigation and claims, and an estimate of the financial implications, including costs involved.

A23. If it is considered unlikely that the entity's external legal counsel will respond appropriately to a letter of general enquiry, for example if the professional body to

[9] ISA (NZ) 540 ~~(Revised)~~, *Auditing Accounting Estimates, and Related Disclosures*.

which the external legal counsel belongs prohibits response to such a letter, the auditor may seek direct communication through a letter of specific enquiry. For this purpose, a letter of specific enquiry includes:

(a) A list of litigation and claims;

(b) Where available, management's assessment of the outcome of each of the identified litigation and claims and its estimate of the financial implications, including costs involved; and

(c) A request that the entity's external legal counsel confirm the reasonableness of management's assessments and provide the auditor with further information if the list is considered by the entity's external legal counsel to be incomplete or incorrect.

NZA23.1 An example of a letter of specific enquiry is included in [NZ] Appendix 1.

NZA23.2 An auditor may in some circumstances request that management send a letter of enquiry to the entity's legal counsel who are not identified as currently handling the entity's litigation and claims. For example when the entity has changed legal counsel on a particular matter, or when legal counsel engaged by the entity has resigned, the auditor would consider the need for enquiries concerning the reasons for the change or resignation.

A24. In certain circumstances, the auditor also may judge it necessary to meet with the entity's external legal counsel to discuss the likely outcome of the litigation or claims. This may be the case, for example, where:

- The auditor determines that the matter is a significant risk.
- The matter is complex.
- There is disagreement between management and the entity's external legal counsel.

Ordinarily, such meetings require management's permission and are held with a representative of management in attendance.

In house and/or External Legal Counsel (Ref: Para. NZ 10.1)

NZA24.1 If both in-house and external legal counsel are involved in advising the entity on the same litigation and claims, the auditor would ordinarily seek a letter of enquiry from the legal counsel with the primary responsibility for that matter. However, there may be circumstances where the in-house legal counsel has primary responsibility, but the matter has involved substantial participation by an external legal counsel, and is of such significance that the auditor would consider obtaining a letter of enquiry from the external legal counsel to determine that their opinion does not differ materially from that of the in-house legal counsel.

NZ A24.2 In circumstances where both in-house and external legal counsel have devoted substantial attention to litigation and claims involving the entity and primary responsibility rests with the external legal counsel, evidence obtained from an in-house legal counsel is not an adequate substitute for any information that the external legal counsel may refuse to furnish.

Legal Counsel's Inability to Respond Comprehensively or Limitations in a Response (Ref: Para 11(a))

NZA24.3 If a response is not received from the entity's legal counsel, or the response received is incomplete, the auditor would ordinarily consider:

(a) requesting management to contact the entity's legal counsel to either seek a complete answer to the original request, or an explanation for the lack of, or limitation in, a response, which ought to be sent directly to the auditor; or

(b) making arrangements to discuss with management or the entity's legal counsel the reasons for the lack of, or limitation in, a response.

Alternative Audit Procedures (Ref. Para. 11(b))

NZA24.4 Where the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion regarding litigation and claims, under ISA (NZ) 330, the auditor needs to consider whether alternative audit procedures can provide further audit evidence. Alternative audit procedures may include:

(a) further enquiries of management, about for instance the processes, procedures and assumptions they implement, adopt or make to ensure litigation and claims are recognised and disclosed in accordance with the applicable financial reporting framework;

(b) where possible, making arrangements to discuss litigation and claims with management and the entity's legal counsel;

(c) further review of documents in management's possession concerning litigation and claims, including the entity's board minutes; and

(d) further examination of accounts rendered by the entity's external legal counsel.

Other Audit Reporting Considerations (Ref: Para. 11)

NZA24.5 In those circumstances where, due to uncertainties, the entity's legal counsel is unable to form a conclusion to corroborate representations from management and those charged with governance, the auditor needs to consider the effect on the auditor's report arising from the extent of disclosure of the uncertainty in the financial statements:

(a) where the auditor considers that the disclosure of the uncertainty in the financial statements is adequate, the auditor needs to consider including an Emphasis of Matter paragraph, in accordance with ISA (NZ) 706 ~~(Revised)~~, or

(b) if in the auditor's opinion the disclosure of the uncertainty is inadequate or unreliable, a modified opinion needs to be expressed in accordance with ISA (NZ) 705 ~~(Revised)~~.

A25. In accordance with ISA (NZ) 700 ~~(Revised)~~,[10] the auditor is required to date the auditor's report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements. Audit evidence about the status of litigation and claims up to the date of the auditor's report may be obtained by enquiry of management, including in-house legal

[10] ISA (NZ) 700 ~~(Revised)~~, *Forming an Opinion and Reporting on Financial Statements*, paragraph 4~~9~~1.

counsel, responsible for dealing with the relevant matters. In some instances, the auditor may need to obtain updated information from the entity's external legal counsel.

Segment Information (Ref: Para. 13)

A26. Depending on the applicable financial reporting framework, the entity may be required or permitted to disclose segment information in the financial statements. The auditor's responsibility regarding the presentation and disclosure of segment information is in relation to the financial statements taken as a whole. Accordingly, the auditor is not required to perform audit procedures that would be necessary to express an opinion on the segment information presented on a stand alone basis.

Understanding of the Methods Used by Management (Ref: Para. 13(a))

A27. Depending on the circumstances, examples of matters that may be relevant when obtaining an understanding of the methods used by management in determining segment information and whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework include:

- Sales, transfers and charges between segments, and elimination of inter-segment amounts.
- Comparisons with budgets and other expected results, for example, operating profits as a percentage of sales.
- The allocation of assets and costs among segments.
- Consistency with prior periods, and the adequacy of the disclosures with respect to inconsistencies.

[NZ] Appendix 1

(Ref: NZA23.1)

This example letter relates to specific enquiry directed to the entity's external legal counsel, but may be adapted, as appropriate, to specific enquiry directed to the entity's internal legal counsel.

Example of a Letter of Specific Enquiry to External Legal Counsel (For an Audit Client)

(Client Letterhead)

(Date)

(Name and Address of External Legal Counsel)

Dear ...

In connection with the preparation and audit of the financial statements of (name of company) (and the following subsidiaries and/or divisions) for the reporting period ended (date) we request that you provide to this company, at our cost, the following information:

1 Confirmation that you are acting for the company (and the above-named subsidiaries and/or divisions) in relation to the matters mentioned below and that the directors' description and estimates of the amounts of the financial settlement (including costs and disbursements) which might arise in relation to those matters are in your opinion reasonable.

Name of Company (subsidiary or division)	Directors' Description of Matter (including current status)	Directors' Estimate of the Financial Settlement (inclusive of costs and disbursements)

2 Should you disagree with any of the information included in 1 above, please comment on the nature of your disagreement.

3 In addition to the above, a list of open files that you maintain in relation to the company (and the above mentioned subsidiaries and/or divisions).

4 In relation to the matters identified under 2 and 3 above, we authorise you to discuss these matters with our auditor (name and address), if requested, and at our cost.

It is understood that:

(a) the company (and the above-named subsidiaries and/or divisions) may have used other legal counsel in certain matters;

(b) the information sought relates only to information relating to litigation and claims referred to your firm (including branches or subsidiaries) which were current at any

time during the above-mentioned reporting period, or have arisen since the end of the reporting period and up to the date of your response;

(c) unless separately requested in writing, you are not responsible for keeping the auditors advised of any changes after the date of your reply;

(d) you are only required to respond on matters referred to you as legal counsel for the company (and the above-mentioned subsidiaries and/or divisions), not on those within your knowledge solely because of the holding of any office as director, secretary or otherwise of the company (and the above-mentioned subsidiaries and/or divisions) by a consultant, partner or employee of your firm; and

(e) your reply is sought solely for the information of, and assistance to, this company in connection with the audit of, and report with respect to, the financial statements of the company (and the above-mentioned subsidiaries and/or divisions) and will not be quoted or otherwise referred to in any financial statements or related documents of the company (and the above-mentioned subsidiaries and/or divisions) nor will it be furnished to any governmental agency or other person, subject to specific legislative requirements, without the prior written consent of your firm.

Your prompt assistance in this matter will be appreciated. If you are unable to confirm or provide the information requested above, please advise us and our auditor the reasons for any limitation or impediment to fulfilling this request.

Please forward a signed copy of your reply directly to our auditors, (name) at (address), by (date).

Yours faithfully,

(Signature and Title of client)

Schedule 1

Transitional, savings, and related provisions

Part 1 Provisions relating to this standard as made

There are no transitional, savings, or related provisions in this standard as made.

Made at Wellington on 12 December 2025

John Kensington

Chair

External Reporting Board

Explanatory and other information

These notes and other information are not part of the standard

Explanatory note

This standard is the International Standard on Auditing (New Zealand) 501, *Audit Evidence – Specific Considerations for Selected Items.*

This standard is the New Zealand equivalent of International Standard on Auditing 501, *Audit Evidence – Specific Considerations for Selected Items,* and results from revisions to international standards issued by the International Auditing and Assurance Standards Board relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

This standard applies to accounting periods that begin on or after 15 December 2026.

The standard was approved by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board.

This standard revokes the ISA (NZ) 501 *Audit Evidence – Specific Considerations for Selected Items* issued in July 2011. However, that standard continues to apply in relation to accounting periods that begin before 15 December 2026 as if it had not been revoked. (see Legislation Act 2019).

Conformity with International Standards on Auditing

This Standard conforms to International Standard on Auditing ISA 501, *Audit Evidence – Specific Considerations for Selected Items*, issued by the International Auditing and Assurance Standards Board.

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix "NZ".

The following requirement is additional to ISA 501. It has also been added to ASA 501:

- Where in-house legal counsel has the primary responsibility for litigation and claims and is in the best position to corroborate management's representations, 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. (Ref: Para. NZ10.1.)
- References to "management" and "those charged with governance" have been amended in the ISAs (NZ) because the statutory responsibility for the preparation of the financial statements rests with those charged with governance. The ISAs require the auditor to obtain written representations from management. The ISAs (NZ) require written representations from those charged with governance. Paragraphs where references to "management" have been amended have been labelled as NZ paragraphs.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 501.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 501 *Audit Evidence – Specific Considerations for Inventory and Segment Information* and ASA 502 *Audit Evidence – Specific Considerations for Litigation and Claims.*

ASA 501 conforms with the Inventory and Segment Information sections (paragraphs 1–8, 13, A1–A16 and A26–A27) of ISA 501. The other paragraphs of ISA 501 (paragraphs 1–3, 9–12 and A17–A25) relating to Litigation and Claims are incorporated into ASA 502.

The AUASB decided to continue to issue ASA 502 as a separate Auditing Standard, in the same way as the structure of the previous Australian standards. Paragraphs have therefore been renumbered in ASA 502.

The following requirements are additional to ISA 501 and ISA (NZ) 501:

- If a response from the entity's external or internal legal counsel contains a material disagreement with management's original evaluation of a particular matter, the auditor shall seek discussions with management and the entity's legal counsel, unless management subsequently agrees with the legal counsel's evaluation. (Ref: ASA 502, para. Aus 5.2)
- The auditor shall enquire of management about new litigation and claims referred to the entity's legal counsel subsequent to the date of the request for a letter of enquiry to the entity's legal counsel and prior to signing the auditor's report. (Ref: ASA 502, para. Aus 6.1)
- If audit procedures lead to the discovery of matters of a legal nature not previously identified by management, the auditor shall consider the impact of each of the matters on the financial report. (Ref: ASA 502, para. Aus 6.2)

Copyright

The Standard above is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board ("IAASB"). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at https://www.xrb.govt.nz/about-xrb/contact-us/

ISBN 978-1-99-100583-0

History of Amendments

Table of instruments – ISA (NZ) 501

This table lists the instruments amending this standard.

Instrument	Date made	Application date

Minimum Legislative Information

This Standard is secondary legislation published under the Legislation Act 2019.

Title	International Standard on Auditing (New Zealand) 501, *Audit Evidence – Specific Considerations for Selected Items*
Principal or amendment	Principal
Consolidated version	No
Empowering Act and provisions	Section 12(b) of the Financial Reporting Act 2013.
Replacement empowering Act and provision	
Maker name	External Reporting Board
Administering agency	External Reporting Board
Date made	12 December 2025
Publication date	18 December 2025
Notification date	18 December 2025
Commencement date	This standard takes effect on 15 January 2026.
End date	
Consolidation as at date	
Related instruments	

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

[XRB] 2025/21

This secondary legislation is administered by the External Reporting Board.
For more information please see:
Website: www.xrb.govt.nz
Contact phone: +64 4 550 2030
Contact address: Level 6/154 Featherston St, Wellington, 6011

There is an explanatory note at the end of this standard that sets out how and from when this standard operates.

International Standard on Auditing (New Zealand) 520, *Analytical Procedures*

This Standard is made under section 12(b) of the Financial Reporting Act 2013 by the External Reporting Board after complying with section 22 of that Act.

CONTENTS

	Paragraph
~~History of Amendments~~	
Title	0.1
Commencement	0.2
Interpretation	0.3
Application	0.4
Revocation	0.5
Transitional, savings, and related provisions	0.6
Introduction	
Scope of this ISA (NZ)	1
Effective Date	2
Objectives	3
Definition	4
Requirements	
Substantive Analytical Procedures	5
Analytical Procedures that Assist When Forming an Overall Conclusion	6
Investigating Results of Analytical Procedures	7

Application and Other Explanatory Material

Definition of Analytical Procedures A1–A3

Substantive Analytical Procedures.....A4–A16

Analytical Procedures that Assist When Forming an Overall Conclusion A17–A19

Investigating Results of Analytical Procedures A20–A21

~~Accompanying Attachment: Conformity to the International Standards on Auditing~~

Schedule 1

International Standard on Auditing (New Zealand) (ISA (NZ)) 520, "*Analytical Procedures*," should be read in conjunction with ISA (NZ) 200, "*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*."

Title

0.1 This is the International Standard on Auditing (New Zealand) 520, *Analytical Procedures.*

Commencement

0.2 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019 (see section 27 of the Financial Reporting Act 2013).

This note is not part of the standard.

This standard was published on 18 December 2025 and takes effect on 15 January 2026.

Interpretation

0.3 In this standard ISA (NZ) 520 means the International Standard on Auditing (New Zealand) 520, *Analytical Procedures*.

Application

0.4 This standard commences to apply in relation to accounting periods that begin on or 15 December 2026.

Revocation

0.5 The standard International Standard on Auditing (New Zealand) 520 *Analytical Procedures* issued in July 2011 is revoked on the date this standard takes effect.

Transitional, savings, and related provisions

0.6 The transitional, savings, and related provisions (if any) set out in Schedule 1 have effect according to their terms.~~.~~

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures"). It also deals with the auditor's responsibility to perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements. ISA (NZ) 315 ~~(Revised 2019)~~[1] deals with the use of analytical procedures as risk assessment procedures. ISA (NZ) 330 includes requirements and guidance regarding the nature, timing and extent of audit procedures in response to assessed risks; these audit procedures may include substantive analytical procedures.[2]

Effective Date

2. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011.~~[Replaced by the NZAuASB. Refer to paragraph 0.4]

Objectives

3. The objectives of the auditor are:

   (a) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and

   (b) To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

Definition

4. For the purposes of the ISAs (NZ), the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. (Ref: Para. A1~~–~~-A3)

---

1 ISA (NZ) 315 ~~(Revised 2019)~~, *Identifying and Assessing the Risks of Material Misstatement* paragraph 14(b)~~.~~

2 ISA (NZ) 330, *The Auditor's Reponses to Assessed Risks*, paragraphs 6 and 18~~.~~

Requirements

Substantive Analytical Procedures

5. When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with ISA (NZ) 330,[3] the auditor shall: (Ref: Para. A4–A5)

   (a) Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions; (Ref: Para. A6–A11)

   (b) Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation; (Ref: Para. A12–A14)

   (c) Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and (Ref: Para. A15)

   (d) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required by paragraph 7. (Ref: Para. A16)

Analytical Procedures that Assist When Forming an Overall Conclusion

6. The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity. (Ref: Para. A17–A19)

Investigating Results of Analytical Procedures

7. If analytical procedures performed in accordance with this ISA (NZ) identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:

   (a) Enquiring of management and obtaining appropriate audit evidence relevant to management's responses; and

   (b) Performing other audit procedures as necessary in the circumstances. (Ref: Para. A20–A21)

***

[3] ISA (NZ) 330, paragraph 18.

Application and Other Explanatory Material

Definition of Analytical Procedures (Ref: Para. 4)

A1. Analytical procedures include the consideration of comparisons of the entity's financial information with, for example:

- Comparable information for prior periods.
- Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation.
- Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.

A2. Analytical procedures also include consideration of relationships, for example:

- Among elements of financial information that would be expected to conform to a predictable pattern based on the entity's experience, such as gross margin percentages.
- Between financial information and relevant non-financial information, such as payroll costs to number of employees.

A3. Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analyses using advanced statistical techniques. Analytical procedures may be applied to consolidated financial statements, components and individual elements of information.

Substantive Analytical Procedures (Ref: Para. 5)

A4. The auditor's substantive procedures at the assertion level may be tests of details, substantive analytical procedures, or a combination of both. The decision about which audit procedures to perform, including whether to use substantive analytical procedures, is based on the auditor's judgement about the expected effectiveness and efficiency of the available audit procedures to reduce audit risk at the assertion level to an acceptably low level.

A5. The auditor may enquire of management as to the availability and reliability of information needed to apply substantive analytical procedures, and the results of any such analytical procedures performed by the entity. It may be effective to use analytical data prepared by management, provided the auditor is satisfied that such data is properly prepared.

Suitability of Particular Analytical Procedures for Given Assertions (Ref: Para. 5(a))

A6. Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. The application of planned analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary. However, the suitability of a particular analytical procedure will depend upon the auditor's assessment of how effective it will be in detecting a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.

A7. In some cases, even an unsophisticated predictive model may be effective as an analytical procedure. For example, where an entity has a known number of employees at fixed rates of pay throughout the period, it may be possible for the auditor to use this data to estimate the total payroll costs for the period with a high degree of accuracy, thereby providing audit evidence for a significant item in the financial statements and reducing the need to perform tests of details on the payroll. The use of widely recognised trade ratios (such as profit margins for different types of retail entities) can often be used effectively in substantive analytical procedures to provide evidence to support the reasonableness of recorded amounts.

A8. Different types of analytical procedures provide different levels of assurance. Analytical procedures involving, for example, the prediction of total rental income on a building divided into apartments, taking the rental rates, the number of apartments and vacancy rates into consideration, can provide persuasive evidence and may eliminate the need for further verification by means of tests of details, provided the elements are appropriately verified. In contrast, calculation and comparison of gross margin percentages as a means of confirming a revenue figure may provide less persuasive evidence, but may provide useful corroboration if used in combination with other audit procedures.

A9. The determination of the suitability of particular substantive analytical procedures is influenced by the nature of the assertion and the auditor's assessment of the risk of material misstatement. For example, if controls over sales order processing are deficient, the auditor may place more reliance on tests of details rather than on substantive analytical procedures for assertions related to receivables.

A10. Particular substantive analytical procedures may also be considered suitable when tests of details are performed on the same assertion. For example, when obtaining audit evidence regarding the valuation assertion for accounts receivable balances, the auditor may apply analytical procedures to an ageing of customers' accounts in addition to performing tests of details on subsequent cash receipts to determine the collectability of the receivables.

Considerations Specific to Public Sector Entities

A11. The relationships between individual financial statement items traditionally considered in the audit of business entities may not always be relevant in the audit of governments or other non-business public sector entities; for example, in many public sector entities there may be little direct relationship between revenue and expenditure. In addition, because expenditure on the acquisition of assets may not be capitalised, there may be no relationship between expenditures on, for example, inventories and fixed assets and the amount of those assets reported in the financial statements. Also, industry data or statistics for comparative purposes may not be available in the public sector. However, other relationships may be relevant, for example, variations in the cost per kilometre of road construction or the number of vehicles acquired compared with vehicles retired.

The Reliability of the Data (Ref: Para. 5(b))

A12. The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, the following are relevant when

determining whether data is reliable for purposes of designing substantive analytical procedures:

(a) Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity;[4]

(b) Comparability of the information available. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialised products;

(c) Nature and relevance of the information available. For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and

(d) Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.

A13. The auditor may consider testing the operating effectiveness of controls, if any, over the entity's preparation of information used by the auditor in performing substantive analytical procedures in response to assessed risks. When such controls are effective, the auditor generally has greater confidence in the reliability of the information and, therefore, in the results of analytical procedures. The operating effectiveness of controls over non-financial information may often be tested in conjunction with other tests of controls. For example, in establishing controls over the processing of sales invoices, an entity may include controls over the recording of unit sales. In these circumstances, the auditor may test the operating effectiveness of controls over the recording of unit sales in conjunction with tests of the operating effectiveness of controls over the processing of sales invoices. Alternatively, the auditor may consider whether the information was subjected to audit testing. ISA (NZ) 500 establishes requirements and provides guidance in determining the audit procedures to be performed on the information to be used for substantive analytical procedures.[5]

A14. The matters discussed in paragraphs A12(a)–A12(d) are relevant irrespective of whether the auditor performs substantive analytical procedures on the entity's period end financial statements, or at an interim date and plans to perform substantive analytical procedures for the remaining period. ISA (NZ) 330 establishes requirements and provides guidance on substantive procedures performed at an interim date. [6]

Evaluation Whether the Expectation Is Sufficiently Precise (Ref: Para. 5(c))

A15. Matters relevant to the auditor's evaluation of whether the expectation can be developed sufficiently precisely to identify a misstatement that, when aggregated with other misstatements, may cause the financial statements to be materially misstated, include:

- The accuracy with which the expected results of substantive analytical procedures can be predicted. For example, the auditor may expect greater consistency in

---

4 ISA (NZ) 500, *Audit Evidence*, paragraph A31.

5 ISA (NZ) 500, paragraph 10.

6 ISA (NZ) 330, paragraphs 22–23.

comparing gross profit margins from one period to another than in comparing discretionary expenses, such as research or advertising.

- The degree to which information can be disaggregated. For example, substantive analytical procedures may be more effective when applied to financial information on individual sections of an operation or to financial statements of components of a diversified entity, than when applied to the financial statements of the entity as a whole.
- The availability of the information, both financial and non-financial. For example, the auditor may consider whether financial information, such as budgets or forecasts, and non-financial information, such as the number of units produced or sold, is available to design substantive analytical procedures. If the information is available, the auditor may also consider the reliability of the information as discussed in paragraphs A12–A13 above.

Amount of Difference of Recorded Amounts from Expected Values that Is Acceptable (Ref: Para. 5(d))

A16. The auditor's determination of the amount of difference from the expectation that can be accepted without further investigation is influenced by materiality[7] and the consistency with the desired level of assurance, taking account of the possibility that a misstatement, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated. ISA (NZ) 330 requires the auditor to obtain more persuasive audit evidence the higher the auditor's assessment of risk.[8] Accordingly, as the assessed risk increases, the amount of difference considered acceptable without investigation decreases in order to achieve the desired level of persuasive evidence.[9]

Analytical Procedures that Assist When Forming an Overall Conclusion (Ref: Para. 6)

A17. The conclusions drawn from the results of analytical procedures designed and performed in accordance with paragraph 6 are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements. This assists the auditor to draw reasonable conclusions on which to base the auditor's opinion.

A18. The results of such analytical procedures may identify a previously unrecognised risk of material misstatement. In such circumstances, ISA (NZ) 315 (Revised 2019) requires the auditor to revise the auditor's assessment of the risks of material misstatement and modify the further planned audit procedures accordingly.[10]

A19. The analytical procedures performed in accordance with paragraph 6 may be similar to those that would be used as risk assessment procedures.

---

7 ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraph A14.

8 ISA (NZ) 330, paragraph 7(b).

9 ISA (NZ) 330, paragraph A19.

10 ISA (NZ) 315 (Revised 2019), paragraph 37.

Investigating Results of Analytical Procedures (Ref: Para. 7)

A20. Audit evidence relevant to management's responses may be obtained by evaluating those responses taking into account the auditor's understanding of the entity and its environment, and with other audit evidence obtained during the course of the audit.

A21. The need to perform other audit procedures may arise when, for example, management is unable to provide an explanation, or the explanation, together with the audit evidence obtained relevant to management's response, is not considered adequate.

Schedule 1

Transitional, savings, and related provisions

Part 1 Provisions relating to this standard as made

There are no transitional, savings, or related provisions in this standard as made.

Made at Wellington on 12 December 2025

John Kensington

Chair

External Reporting Board

Explanatory and other information

These notes and other information are not part of the standard

Explanatory note

This standard is the International Standard on Auditing (New Zealand) 520, *Analytical Procedures.*

This standard is the New Zealand equivalent of International Standard on Auditing 520, *Analytical Procedures*, and results from revisions to international standards issued by the International Auditing and Assurance Standards Board relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

This standard applies to accounting periods that begin on or after 15 December 2026.

The standard was approved by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board.

This standard revokes the ISA (NZ) 520 *Analytical Procedures* issued in July 2011. However, that standard continues to apply in relation to accounting periods that begin before 15 December 2026 as if it had not been revoked. (see Legislation Act 2019).

Conformity with International Standards on Auditing

This Standard conforms to International Standard on Auditing ISA 520, *Analytical Procedures*. issued by the International Auditing and Assurance Standards Board

Paragraphs that have been added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix "NZ".

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 520.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 520, *Analytical Procedures.*

ASA 520 conforms to ISA 520.

Copyright

The Standard above is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board ("IAASB"). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the

right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at https://www.xrb.govt.nz/about-xrb/contact-us/

ISBN 978-1-99-100582-3

History of Amendments

Table of instruments – ISA (NZ) 520

This table lists the instruments amending this standard.

Instrument	Date made	Application date

Minimum Legislative Information

This Standard is secondary legislation published under the Legislation Act 2019.

Title	International Standard on Auditing (New Zealand) 520, *Analytical Procedures*
Principal or amendment	Principal
Consolidated version	No
Empowering Act and provisions	Section 12(b) of the Financial Reporting Act 2013.
Replacement empowering Act and provision	
Maker name	External Reporting Board
Administering agency	External Reporting Board
Date made	12 December 2025
Publication date	18 December 2025
Notification date	18 December 2025
Commencement date	This standard takes effect on 15 January 2026.
End date	
Consolidation as at date	
Related instruments	

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

[XRB] 2025/30

This secondary legislation is administered by the External Reporting Board.
For more information please see:
Website: www.xrb.govt.nz
Contact phone: +64 4 550 2030
Contact address: Level 6/154 Featherston St, Wellington, 6011

There is an explanatory note at the end of this standard that sets out how and from when this standard operates.

International Standard on Auditing (New Zealand) 620, *Using the Work of an Auditor's Expert*

This Standard is made under section 12(b) of the Financial Reporting Act 2013 by the External Reporting Board after complying with section 22 of that Act.

CONTENTS

Paragraph

~~History of Amendments~~

Title 0.1

Commencement 0.2

Interpretation 0.3

Application 0.4

Revocation 0.5

Transitional, savings, and related provisions 0.6

Introduction

Scope of this ISA (NZ) 1–2

The Auditor's Responsibility for the Audit Opinion 3

Effective Date 4

Objectives 5

Definitions 6

Requirements

Determining the Need for an Auditor's Expert 7
Nature, Timing and Extent of Audit Procedures 8
The Competence, Capabilities and Objectivity of the Auditor's Expert 9
Obtaining an Understanding of the Field of Expertise of the Auditor's Expert 10
Agreement with the Auditor's Expert 11
Evaluating the Adequacy of the Auditor's Expert's Work 12–13
Reference to the Auditor's Expert in the Auditor's Report 14–15

Application and Other Explanatory Material

Definitions of an Auditor's Expert A1–A3
Determining the Need for an Auditor's Expert A4–A9
Nature, Timing and Extent of Audit Procedures A10–A13
The Competence, Capabilities and Objectivity of the Auditor's Expert A14–A20
Obtaining an Understanding of the Field of Expertise of the Auditor's Expert A21–A22
Agreement with the Auditor's Expert A23–A31
Evaluating the Adequacy of the Auditor's Expert's Work A32–A40
Reference to the Auditor's Expert in the Auditor's Report A41–A42
Appendix: Considerations for Agreement between the Auditor and an Auditor's External Expert

Schedule 1

~~Accompanying Attachment: Conformity to the International Standards on Auditing~~

International Standard on Auditing (New Zealand) (ISA (NZ)) 620, *"Using the Work of an Auditor's Expert," should be read in conjunction with ISA (NZ) 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)."*

Title

0.1 This is the International Standard on Auditing (New Zealand) 620, *Using the Work of an Auditor's Expert.*

Commencement

0.2 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019 (see section 27 of the Financial Reporting Act 2013).

This note is not part of the standard.
This standard was published on 18 December 2025 and takes effect on 15 January 2026.

Interpretation

0.3 In this standard ISA (NZ) 520 means the International Standard on Auditing (New Zealand) 620, *Using the Work of an Auditor's Expert*.

Application

0.4 This standard commences to apply in relation to accounting periods that begin on or 15 December 2026.

Revocation

0.5 The standard International Standard on Auditing (New Zealand) 620 *Using the Work of an Auditor's Expert* issued in July 2011 is revoked on the date this standard takes effect.

Transitional, savings, and related provisions

0.6 The transitional, savings, and related provisions (if any) set out in Schedule 1 have effect according to their terms.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibilities relating to the work of an individual or organisation in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.

2. This ISA (NZ) does not deal with:

   (a) Situations where the engagement team includes a member, or consults an individual or organisation, with expertise in a specialised area of accounting or auditing, which are dealt with in ISA (NZ) 220 ~~(Revised)~~;[1] or

   (b) The auditor's use of the work of an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management's expert), which is dealt with in ISA (NZ) 500.[2]

The Auditor's Responsibility for the Audit Opinion

---

1 ISA (NZ) 220 ~~(Revised)~~, *Quality Management for an Audit of Financial Statements*, paragraph A19

2 ISA (NZ) 500, *Audit Evidence*, paragraphs A45-A59

3. The auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert. Nonetheless, if the auditor using the work of an auditor's expert, having followed this ISA (NZ), concludes that the work of that expert is adequate for the auditor's purposes, the auditor may accept that expert's findings or conclusions in the expert's field as appropriate audit evidence.

Effective Date

4. ~~This I~~[Replaced by the NZAuASB. Refer to paragraph 0.4]~~SA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011. [*Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments].*~~

Objectives

5. The objectives of the auditor are:
   (a) To determine whether to use the work of an auditor's expert; and
   (b) If using the work of an auditor's expert, to determine whether that work is adequate for the auditor's purposes.

Definitions

6. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
   (a) Auditor's expert – An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner[3] or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert. (Ref: Para. A1–A3)
   (b) Expertise – Skills, knowledge and experience in a particular field.
   (c) Management's expert – An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

Requirements

Determining the Need for an Auditor's Expert

7. If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert. (Ref: Para. A4–A9)

Nature, Timing and Extent of Audit Procedures

8. The nature, timing and extent of the auditor's procedures with respect to the requirements in paragraphs 9–13 of this ISA (NZ) will vary depending on the

[3] "Partner" and "firm" should be read as referring to their public sector equivalents where relevant.

circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including: (Ref: Para. A10)

(a) The nature of the matter to which that expert's work relates;

(b) The risks of material misstatement in the matter to which that expert's work relates;

(c) The significance of that expert's work in the context of the audit;

(d) The auditor's knowledge of and experience with previous work performed by that expert; and

(e) Whether that expert is subject to the auditor's firm's system of quality management. (Ref: Para. A11–A13)

The Competence, Capabilities and Objectivity of the Auditor's Expert

9. The auditor shall evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. In the case of an auditor's external expert, the evaluation of objectivity shall include enquiry regarding interests and relationships that may create a threat to that expert's objectivity. (Ref: Para. A14–A20)

Obtaining an Understanding of the Field of Expertise of the Auditor's Expert

10. The auditor shall obtain a sufficient understanding of the field of expertise of the auditor's expert to enable the auditor to: (Ref: Para. A21–A22)

(a) Determine the nature, scope and objectives of that expert's work for the auditor's purposes; and

(b) Evaluate the adequacy of that work for the auditor's purposes.

Agreement with the Auditor's Expert

11. The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert: (Ref: Para. A23–A26)

(a) The nature, scope and objectives of that expert's work; (Ref: Para. A27)

(b) The respective roles and responsibilities of the auditor and that expert; (Ref: Para. A28–A29)

(c) The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and (Ref: Para. A30)

(d) The need for the auditor's expert to observe confidentiality requirements. (Ref: Para. A31)

Evaluating the Adequacy of the Auditor's Expert's Work

12. The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including: (Ref: Para. A32)

(a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence; (Ref: Para. A33–A34)

(b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and (Ref: Para. A35–A37)

(c) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data. (Ref: Para. A38–A39)

13. If the auditor determines that the work of the auditor's expert is not adequate for the auditor's purposes, the auditor shall: (Ref: Para. A40)

(a) Agree with that expert on the nature and extent of further work to be performed by that expert; or

(b) Perform additional audit procedures appropriate to the circumstances.

Reference to the Auditor's Expert in the Auditor's Report

14. The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion. (Ref: Para. A41)

15. If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion. (Ref: Para. A42)

***

Application and Other Explanatory Material

Definition of an Auditor's Expert (Ref: Para. 6(a))

A1. Expertise in a field other than accounting or auditing may include expertise in relation to such matters as:

- The valuation of complex financial instruments, land and buildings, plant and machinery, jewellery, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.
- The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.
- The estimation of oil and gas reserves.
- The valuation of environmental liabilities, and site clean-up costs.
- The interpretation of contracts, laws and regulations.
- The analysis of complex or unusual tax compliance issues.

A2. In many cases, distinguishing between expertise in accounting or auditing, and expertise in another field, will be straightforward, even where this involves a specialised area of accounting or auditing. For example, an individual with expertise in applying methods of accounting for deferred income tax can often be easily distinguished from an expert in taxation law. The former is not an expert for the purposes of this ISA (NZ) as this constitutes accounting expertise; the latter is an expert for the purposes of this ISA (NZ) as this constitutes legal expertise. Similar distinctions may also be able to be made in other areas, for example, between expertise in methods of accounting for financial instruments, and expertise in complex modelling for the purpose of valuing financial instruments. In some cases, however, particularly those involving an emerging area of accounting or auditing expertise, distinguishing between specialised areas of accounting or auditing, and expertise in another field, will be a matter of professional judgement. Applicable professional rules and standards regarding education and competency requirements for accountants and auditors may assist the auditor in exercising that judgement.[4]

A3. It is necessary to apply judgement when considering how the requirements of this ISA (NZ) are affected by the fact that an auditor's expert may be either an individual or an organisation. For example, when evaluating the competence, capabilities and objectivity of an auditor's expert, it may be that the expert is an organisation the auditor has previously used, but the auditor has no prior experience of the individual expert assigned by the organisation for the particular engagement; or it may be the reverse, that is, the auditor may be familiar with the work of an individual expert but not with the organisation that expert has joined. In either case, both the personal attributes of the individual and the managerial attributes of the organisation (such as systems of quality control the organisation implements) may be relevant to the auditor's evaluation.

Determining the Need for an Auditor's Expert (Ref: Para. 7)

A4. An auditor's expert may be needed to assist the auditor in one or more of the following:

- Obtaining an understanding of the entity and its environment, ~~, t~~the applicable financial reporting framework and the entity's system of internal control.
- Identifying and assessing the risks of material misstatement.
- Determining and implementing overall responses to assessed risks at the financial statement level.
- Designing and performing further audit procedures to respond to assessed risks at the assertion level, comprising tests of controls or substantive procedures.
- Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial statements.

A5. The risks of material misstatement may increase when expertise in a field other than accounting is needed for management to prepare the financial statements, for example, because this may indicate some complexity, or because management may not possess

[4] For example, International Education Standard 8, "*Competence Requirements for Audit Professionals*", may be of assistance.

knowledge of the field of expertise. If in preparing the financial statements management does not possess the necessary expertise, a management's expert may be used in addressing those risks. Relevant controls, including controls that relate to the work of a management's expert, if any, may also reduce the risks of material misstatement.

A6. If the preparation of the financial statements involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit those financial statements. The engagement partner is required to determine that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.[5] Further, the auditor is required to ascertain the nature, timing and extent of resources necessary to perform the engagement.[6] The auditor's determination of whether to use the work of an auditor's expert, and if so when and to what extent, assists the auditor in meeting these requirements. As the audit progresses, or as circumstances change, the auditor may need to revise earlier decisions about using the work of an auditor's expert.

A7. An auditor who is not an expert in a relevant field other than accounting or auditing may nevertheless be able to obtain a sufficient understanding of that field to perform the audit without an auditor's expert. This understanding may be obtained through, for example:

- Experience in auditing entities that require such expertise in the preparation of their financial statements.
- —Education or professional development in the particular field. This may include formal courses, or discussion with individuals possessing expertise in the relevant field for the purpose of enhancing the auditor's own capacity to deal with matters in that field. Such discussion differs from consultation with an auditor's expert regarding a specific set of circumstances encountered on the engagement where that expert is given all the relevant facts that will enable the expert to provide informed advice about the particular matter.[7]
- Discussion with auditors who have performed similar engagements.

A8. In other cases, however, the auditor may determine that it is necessary, or may choose, to use an auditor's expert to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether to use an auditor's expert may include:

- Whether management has used a management's expert in preparing the financial statements (see paragraph A9).
- The nature and significance of the matter, including its complexity.
- The risks of material misstatement in the matter.
- The expected nature of procedures to respond to identified risks, including: the auditor's knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of audit evidence.

---

5 ISA (NZ) 220 ~~(Revised)~~, paragraph 25-28

6 ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 8(e)

7 ISA (NZ) 220 ~~(Revised)~~, paragraph A99–A102

A9. When management has used a management's expert in preparing the financial statements, the auditor's decision on whether to use an auditor's expert may also be influenced by such factors as:

- The nature, scope and objectives of the management's expert's work.
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- The extent to which management can exercise control or influence over the work of the management's expert.
- The management's expert's competence and capabilities.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements
- Any controls within the entity over the management's expert's work.

ISA (NZ) 500[8] includes requirements and guidance regarding the effect of the competence, capabilities and objectivity of management's experts on the reliability of audit evidence.

Nature, Timing and Extent of Audit Procedures (Ref: Para. 8)

A10. The nature, timing and extent of audit procedures with respect to the requirements in paragraphs 9–13 of this ISA (NZ) will vary depending on the circumstances. For example, the following factors may suggest the need for different or more extensive procedures than would otherwise be the case:

- The work of the auditor's expert relates to a significant matter that involves subjective and complex judgements.
- The auditor has not previously used the work of the auditor's expert, and has no prior knowledge of that expert's competence, capabilities and objectivity.
- The auditor's expert is performing procedures that are integral to the audit, rather than being consulted to provide advice on an individual matter.
- The expert is an auditor's external expert and is not, therefore, subject to the firm's system of quality management.

The Auditor's Firm's System of Quality Management (Ref: Para. 8(e))

A11. An auditor's internal expert may be a partner or staff (i.e., personnel), including temporary staff, of the auditor's firm, and therefore subject to the system of quality management of that firm in accordance with Professional and Ethical Standard (PES) 3[9].[10] An auditor's internal expert may also be a partner or staff, including temporary staff, of a network firm, and is subject to the firm's policies or procedures for network requirements and network services in accordance with ~~Professional and Ethical~~

[8] ISA (NZ) 500, paragraph 8

[9] Professional and Ethical Standard (PES) 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 1~~8~~6(w)

[10] ISA (NZ) 220 ~~(Revised)~~, paragraph 3

~~Standard~~PES 3. In some instances, the auditor's internal expert of a network firm may be subject to common quality management policies or procedures as the auditor's firm, given that they are part of the same network.

A12. ~~Professional and Ethical Standard~~PES 3 requires the firm to address the use of resources from a service provider, which includes the use of an external expert.[11] An auditor's external expert is not a member of the engagement team and may not be subject to~~-~~, the firm's policies or procedures under its system of quality management.[12] Furthermore, the firm's policies or procedures for relevant ethical requirements may include policies or procedures that apply to the auditor's external expert.[13] In some cases, relevant ethical requirements or law or regulation may require that an auditor's external expert be:

- Treated as a member of the engagement team (i.e., the external expert may be subject to relevant ethical requirements, including those related to independence); or
- Subject to other professional requirements.

A13. As described in ISA (NZ) 220 ~~(Revised)~~, quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement.[14] For example, the auditor may be able to depend on the firm's related policies or procedures in respect of:

- Competence and capabilities, through recruitment and training programmes.
- Objectivity. Auditor's internal experts are subject to relevant ethical requirements, including those relating to independence.
- The auditor's evaluation of the adequacy of the auditor's expert's work. For example, the firm's training programmes may provide auditor's internal experts with an appropriate understanding of the interrelationship of their expertise with the audit process. Reliance on such training may affect the nature, timing and extent of the auditor's procedures to evaluate the adequacy of the auditor's expert's work.
- Adherence to regulatory and legal requirements, through monitoring processes.
- Agreement with the auditor's expert.

Matters that the auditor may take into account when determining whether to depend on the firm's policies or procedures are described in ISA (NZ) 220 ~~(Revised)~~.[15] Depending on the firm's policies or procedures does not reduce the auditor's responsibility to meet the requirements of this ISA (NZ).

The Competence, Capabilities and Objectivity of the Auditor's Expert (Ref: Para. 9)

A14. The competence, capabilities and objectivity of an auditor's expert are factors that significantly affect whether the work of the auditor's expert will be adequate for the

---

11 ~~Professional and Ethical Standard~~PES 3, paragraph 3~~4~~2

12 ~~Professional and Ethical Standard~~PES 3, paragraph 1~~8~~6(f)

13 ~~Professional and Ethical Standard~~PES 3, paragraph 31~~29~~(b)

14 ISA (NZ) 220 ~~(Revised)~~, paragraph A4

15 ISA (NZ) 220 ~~(Revised)~~, paragraphs 4(b) and A10

auditor's purposes. Competence relates to the nature and level of expertise of the auditor's expert. Capability relates to the ability of the auditor's expert to exercise that competence in the circumstances of the engagement. Factors that influence capability may include, for example, geographic location, and the availability of time and resources. Objectivity relates to the possible effects that bias, conflict of interest, or the influence of others may have on the professional or business judgement of the auditor's expert.

A15. Information regarding the competence, capabilities and objectivity of an auditor's expert may come from a variety of sources, such as:

- Personal experience with previous work of that expert.
- Discussions with that expert.
- Discussions with other auditors or others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, licence to practice, or other forms of external recognition.
- Published papers or books written by that expert.
- The auditor's firm's system of quality management (see paragraphs A11–A13)

A16. Matters relevant to evaluating the competence, capabilities and objectivity of the auditor's expert include whether that expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.

A17. Other matters that may be relevant include:

- The relevance of the auditor's expert's competence to the matter for which that expert's work will be used, including any areas of specialty within that expert's field. For example, a particular actuary may specialise in property and casualty insurance, but have limited expertise regarding pension calculations.
- The auditor's expert's competence with respect to relevant accounting and auditing requirements, for example, knowledge of assumptions and methods, including models where applicable, that are consistent with the applicable financial reporting framework.
- Whether unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures indicate that it may be necessary to reconsider the initial evaluation of the competence, capabilities and objectivity of the auditor's expert as the audit progresses.

A18. A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats. Such threats may be addressed by eliminating the circumstances that create the threats, or applying safeguards to reduce threats to an acceptable level. There may also be safeguards specific to the audit engagement.

A19. The evaluation of whether the threats to objectivity are at an acceptable level may depend upon the role of the auditor's expert and the significance of the expert's work

in the context of the audit. In some cases, it may not be possible to eliminate circumstances that create threats or apply safeguards to reduce threats to an acceptable level, for example, if a proposed auditor's expert is an individual who has played a significant role in preparing the information that is being audited, that is, if the auditor's expert is a management's expert.

A20. When evaluating the objectivity of an auditor's external expert, it may be relevant to:

(a) Enquire of the entity about any known interests or relationships that the entity has with the auditor's external expert that may affect that expert's objectivity.

(b) Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert; and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that may be relevant to discuss with the auditor's expert include:

- Financial interests.
- Business and personal relationships.
- Provision of other services by the expert, including by the organisation in the case of an external expert that is an organisation.

In some cases, it may also be appropriate for the auditor to obtain a written representation from the auditor's external expert about any interests or relationships with the entity of which that expert is aware.

Obtaining an Understanding of the Field of Expertise of the Auditor's Expert (Ref: Para. 10)

A21. The auditor may obtain an understanding of the auditor's expert's field of expertise through the means described in paragraph A7, or through discussion with that expert.

A22. Aspects of the auditor's expert's field relevant to the auditor's understanding may include:

- Whether that expert's field has areas of specialty within it that are relevant to the audit (see paragraph A17).
- Whether any professional or other standards, and regulatory or legal requirements apply.
- What assumptions and methods, including models where applicable, are used by the auditor's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes.
- The nature of internal and external data or information the auditor's expert uses.

Agreement with the Auditor's Expert (Ref: Para. 11)

A23. The nature, scope and objectives of the auditor's expert's work may vary considerably with the circumstances, as may the respective roles and responsibilities of the auditor and the auditor's expert, and the nature, timing and extent of communication between the auditor and the auditor's expert. It is therefore required that these matters are agreed between the auditor and the auditor's expert regardless of whether the expert is an auditor's external expert or an auditor's internal expert.

A24. The matters noted in paragraph 8 may affect the level of detail and formality of the agreement between the auditor and the auditor's expert, including whether it is appropriate that the agreement be in writing. For example, the following factors may suggest the need for a more detailed agreement than would otherwise be the case, or for the agreement to be set out in writing:

- The auditor's expert will have access to sensitive or confidential entity information.
- The respective roles or responsibilities of the auditor and the auditor's expert are different from those normally expected.
- Multi-jurisdictional legal or regulatory requirements apply.
- The matter to which the auditor's expert's work relates is highly complex.
- The auditor has not previously used work performed by that expert.
- The greater the extent of the auditor's expert's work, and its significance in the context of the audit.

A25. The agreement between the auditor and an auditor's external expert is often in the form of an engagement letter. The Appendix lists matters that the auditor may consider for inclusion in such an engagement letter, or in any other form of agreement with an auditor's external expert.

A26. When there is no written agreement between the auditor and the auditor's expert, evidence of the agreement may be included in, for example:

- Planning memoranda, or related working papers such as the audit programme.
- The policies or procedures of the auditor's firm's system of quality management. In the case of an auditor's internal expert, the firm's system of quality management may include policies or procedures relating to the expert's work. The extent of documentation in the auditor's working papers depends on the nature of such policies or procedures. For example, no documentation may be required in the auditor's working papers if the auditor's firm has detailed protocols covering the circumstances in which the work of such an expert is used.

Nature, Scope and Objectives of Work (Ref: Para. 11(a))

A27. It may often be relevant when agreeing on the nature, scope and objectives of the auditor's expert's work to include discussion of any relevant technical performance standards or other professional or industry requirements that the expert will follow.

Respective Roles and Responsibilities (Ref: Para. 11(b))

A28. Agreement on the respective roles and responsibilities of the auditor and the auditor's expert may include:

- Whether the auditor or the auditor's expert will perform detailed testing of source data.
- Consent for the auditor to discuss the auditor's expert's findings or conclusions with the entity and others, and to include details of that expert's findings or conclusions in the basis for a modified opinion in the auditor's report, if necessary

(see paragraph A42).

- Any agreement to inform the auditor's expert of the auditor's conclusions concerning that expert's work.

Working Papers

A29. Agreement on the respective roles and responsibilities of the auditor and the auditor's expert may also include agreement about access to, and retention of, each other's working papers. When the auditor's expert is a member of the engagement team, that expert's working papers form part of the audit documentation. Subject to any agreement to the contrary, auditor's external experts' working papers are their own and do not form part of the audit documentation.

Communication (Ref: Para. 11(c))

A30. Effective two-way communication facilitates the proper integration of the nature, timing and extent of the auditor's expert's procedures with other work on the audit, and appropriate modification of the auditor's expert's objectives during the course of the audit. For example, when the work of the auditor's expert relates to the auditor's conclusions regarding a significant risk, both a formal written report at the conclusion of that expert's work, and oral reports as the work progresses, may be appropriate. Identification of specific partners or staff who will liaise with the auditor's expert, and procedures for communication between that expert and the entity, assists timely and effective communication, particularly on larger engagements.

Confidentiality (Ref: Para. 11(d))

A31. It is necessary for the confidentiality provisions of relevant ethical requirements that apply to the auditor also to apply to the auditor's expert. Additional requirements may be imposed by law or regulation. The entity may also have requested that specific confidentiality provisions be agreed with auditor's external experts.

Evaluating the Adequacy of the Auditor's Expert's Work (Ref: Para. 12)

A32. The auditor's evaluation of the auditor's expert's competence, capabilities and objectivity, the auditor's familiarity with the auditor's expert's field of expertise, and the nature of the work performed by the auditor's expert affect the nature, timing and extent of audit procedures to evaluate the adequacy of that expert's work for the auditor's purposes.

The Findings and Conclusions of the Auditor's Expert (Ref: Para. 12(a))

A33. Specific procedures to evaluate the adequacy of the auditor's expert's work for the auditor's purposes may include:

- Enquiries of the auditor's expert.
- Reviewing the auditor's expert's working papers and reports.
- Corroborative procedures, such as:
    - Observing the auditor's expert's work;
    - Examining published data, such as statistical reports from reputable, authoritative sources;

- Confirming relevant matters with third parties;
- Performing detailed analytical procedures; and
- Reperforming calculations.

- Discussion with another expert with relevant expertise when, for example, the findings or conclusions of the auditor's expert are not consistent with other audit evidence.
- Discussing the auditor's expert's report with management.

A34. Relevant factors when evaluating the relevance and reasonableness of the findings or conclusions of the auditor's expert, whether in a report or other form, may include whether they are:

- Presented in a manner that is consistent with any standards of the auditor's expert's profession or industry;
- Clearly expressed, including reference to the objectives agreed with the auditor, the scope of the work performed and standards applied;
- Based on an appropriate period and take into account subsequent events, where relevant;
- Subject to any reservation, limitation or restriction on use, and if so, whether this has implications for the auditor; and
- Based on appropriate consideration of errors or deviations encountered by the auditor's expert.

Assumptions, Methods and Source Data

Assumptions and Methods (Ref: Para. 12(b))

A35. When the auditor's expert's work is to evaluate underlying assumptions and methods, including models where applicable, used by management in developing an accounting estimate, the auditor's procedures are likely to be primarily directed to evaluating whether the auditor's expert has adequately reviewed those assumptions and methods. When the auditor's expert's work is to develop an auditor's point estimate or an auditor's range for comparison with management's point estimate, the auditor's procedures may be primarily directed to evaluating the assumptions and methods, including models where appropriate, used by the auditor's expert.

A36. ISA (NZ) 540[16] discusses the assumptions and methods used by management in making accounting estimates, including the use in some cases of highly specialised, entity-developed models. Although that discussion is written in the context of the auditor obtaining sufficient appropriate audit evidence regarding management's assumptions and methods, it may also assist the auditor when evaluating an auditor's expert's assumptions and methods.

[16] ISA (NZ) 540, *Auditing Accounting Estimates~~, Including Fair Value Accounting Estimates,~~ and Related Disclosures*, paragraphs 13, 18 and 20

A37. When an auditor's expert's work involves the use of significant assumptions and methods, factors relevant to the auditor's evaluation of those assumptions and methods include whether they are:

- Generally accepted within the auditor's expert's field;
- Consistent with the requirements of the applicable financial reporting framework;
- Dependent on the use of specialised models; and
- Consistent with those of management, and if not, the reason for, and effects of, the differences.

Source Data Used by the Auditor's Expert (Ref: Para. 12(c))

A38. When an auditor's expert's work involves the use of source data that is significant to that expert's work, procedures such as the following may be used to test that data:

- Verifying the origin of the data, including obtaining an understanding of, and where applicable testing, the internal controls over the data and, where relevant, its transmission to the expert.
- Reviewing the data for completeness and internal consistency.

A39. In many cases, the auditor may test source data. However, in other cases, when the nature of the source data used by an auditor's expert is highly technical in relation to the expert's field, that expert may test the source data. If the auditor's expert has tested the source data, enquiry of that expert by the auditor, or supervision or review of that expert's tests may be an appropriate way for the auditor to evaluate that data's relevance, completeness, and accuracy.

Inadequate Work (Ref: Para. 13)

A40. If the auditor concludes that the work of the auditor's expert is not adequate for the auditor's purposes and the auditor cannot resolve the matter through the additional audit procedures required by paragraph 13, which may involve further work being performed by both the expert and the auditor, or include employing or engaging another expert, it may be necessary to express a modified opinion in the auditor's report in accordance with ISA (NZ) 705 because the auditor has not obtained sufficient appropriate audit evidence.[17]

Reference to the Auditor's Expert in the Auditor's Report (Ref: Para. 14-15)

A41. In some cases, law or regulation may require a reference to the work of an auditor's expert, for example, for the purposes of transparency in the public sector.

A42. It may be appropriate in some circumstances to refer to the auditor's expert in an auditor's report containing a modified opinion, to explain the nature of the modification. In such circumstances, the auditor may need the permission of the auditor's expert before making such a reference.

Appendix

[17] ISA (NZ) 705, *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 6(b).

(Ref: Para. A25)

Considerations for Agreement between the Auditor and an Auditor's External Expert

This Appendix lists matters that the auditor may consider for inclusion in any agreement with an auditor's external expert. The following list is illustrative and is not exhaustive; it is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISA (NZ). Whether to include particular matters in the agreement depends on the circumstances of the engagement. The list may also be of assistance in considering the matters to be included in an agreement with an auditor's internal expert.

Nature, Scope and Objectives of the Auditor's External Expert's Work

- The nature and scope of the procedures to be performed by the auditor's external expert.
- The objectives of the auditor's external expert's work in the context of materiality and risk considerations concerning the matter to which the auditor's external expert's work relates, and, when relevant, the applicable financial reporting framework.
- Any relevant technical performance standards or other professional or industry requirements the auditor's external expert will follow.
- The assumptions and methods, including models where applicable, the auditor's external expert will use, and their authority.
- The effective date of, or when applicable the testing period for, the subject matter of the auditor's external expert's work, and requirements regarding subsequent events.

The Respective Roles and Responsibilities of the Auditor and the Auditor's External Expert

- Relevant auditing and accounting standards, and relevant regulatory or legal requirements.
- The auditor's external expert's consent to the auditor's intended use of that expert's report, including any reference to it, or disclosure of it, to others, for example reference to it in the basis for a modified opinion in the auditor's report, if necessary, or disclosure of it to management or an audit committee.
- The nature and extent of the auditor's review of the auditor's external expert's work.
- Whether the auditor or the auditor's external expert will test source data.
- The auditor's external expert's access to the entity's records, files, personnel and to experts engaged by the entity.
- Procedures for communication between the auditor's external expert and the entity.
- The auditor's and the auditor's external expert's access to each other's working papers.
- Ownership and control of working papers during and after the engagement, including any file retention requirements.
- The auditor's external expert's responsibility to perform work with due skill and care.
- The auditor's external expert's competence and capability to perform the work.

- The expectation that the auditor's external expert will use all knowledge that expert has that is relevant to the audit or, if not, will inform the auditor.
- Any restriction on the auditor's external expert's association with the auditor's report.
- Any agreement to inform the auditor's external expert of the auditor's conclusions concerning that expert's work

Communications and Reporting

- Methods and frequency of communications, including:
    - How the auditor's external expert's findings or conclusions will be reported (for example, written report, oral report, ongoing input to the engagement team).
    - Identification of specific persons within the engagement team who will liaise with the auditor's external expert.
- When the auditor's external expert will complete the work and report findings or conclusions to the auditor.
- The auditor's external expert's responsibility to communicate promptly any potential delay in completing the work, and any potential reservation or limitation on that expert's findings or conclusions.
- The auditor's external expert's responsibility to communicate promptly instances in which the entity restricts that expert's access to records, files, personnel or experts engaged by the entity.
- The auditor's external expert's responsibility to communicate to the auditor all information that expert believes may be relevant to the audit, including any changes in circumstances previously communicated.
- The auditor's external expert's responsibility to communicate circumstances that may create threats to that expert's objectivity, and any relevant safeguards that may eliminate or reduce such threats to an acceptable level.

Confidentiality

- The need for the auditor's expert to observe confidentiality requirements, including:
    - The confidentiality provisions of relevant ethical requirements that apply to the auditor.
    - Additional requirements that may be imposed by law or regulation, if any.
    - Specific confidentiality provisions requested by the entity, if any.

Schedule 1

Transitional, savings, and related provisions

Part 1 Provisions relating to this standard as made

There are no transitional, savings, or related provisions in this standard as made.

Made at Wellington on 12 December 2025

John Kensington

Chair

External Reporting Board

Explanatory and other information

These notes and other information are not part of the standard

Explanatory note

This standard is the International Standard on Auditing (New Zealand) 620, *Using the Work of an Auditor's Expert.*

This standard is the New Zealand equivalent of International Standard on Auditing 620, *Using the Work of an Auditor's Expert,* and results from revisions to international standards issued by the International Auditing and Assurance Standards Board relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

This standard applies to accounting periods that begin on or after 15 December 2026.

The standard was approved by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board.

This standard revokes the ISA (NZ) 620 *Using the Work of an Auditor's Expert* issued in July 2011. However, that standard continues to apply in relation to accounting periods that begin before 15 December 2026 as if it had not been revoked. (see Legislation Act 2019).

Conformity with International Standards on Auditing

This Standard conforms to International Standard on Auditing ISA 620, *Using the Work of an Auditor's Expert*, issued by the International Auditing and Assurance Standards.

Paragraphs that have been added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix "NZ".

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 620.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 620, *Using the Work of an Auditor's Expert.*

ASA 620 conforms to ISA 620.

Copyright

The standard is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (IAASB). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the

right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any enquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at https://www.xrb.govt.nz/about-xrb/contact-us/

ISBN 978-1-99-100581-6

History of Amendments

Table of instruments – ISA (NZ) 620

This table lists the instruments amending this standard.

Instrument	Date made	Application date

Minimum Legislative Information

This Standard is secondary legislation published under the Legislation Act 2019.

Title	International Standard on Auditing (New Zealand) 620, *Using the Work of an Auditor's Expert*
Principal or amendment	Principal
Consolidated version	No
Empowering Act and provisions	Section 12(b) of the Financial Reporting Act 2013.
Replacement empowering Act and provision	
Maker name	External Reporting Board
Administering agency	External Reporting Board
Date made	12 December 2025
Publication date	18 December 2025
Notification date	18 December 2025
Commencement date	This standard takes effect on 15 January 2026.
End date	
Consolidation as at date	
Related instruments	

AccountAbility

Setting the Standard for Sustainability

August 13th, 2025

XRB
Level 6/154
Featherston St
Central Wellington
6011
New Zealand

AccountAbility's Response to the Consultation on Alignment with International Standards: Sustainability Assurance, Ethics and Independence and Using the Work of an External Expert.

Dear XRB,

AccountAbility is a global standards-setter and consulting firm that works with businesses, investors, governments and multi-lateral organizations on ESG matters to realise opportunities, advance responsible business practices and transform their long-term performance. AccountAbility's AA1000 Series of Standards, which can be downloaded for free on the AccountAbility website, are principles-based frameworks used by global businesses, private enterprises, governments, and other public and private organizations to demonstrate leadership and performance in accountability, responsibility, and sustainability.

For over 30 years, organizations have come to rely on AccountAbility's standards to guide their approach to sustainability strategy, governance, and operations. The AA1000 Assurance Standard (AA1000AS v3) is recognised globally, including in trusted, independent sustainability initiatives such as CDP and GRESB and is often used by assurance providers to ensure alignment with other sustainability disclosures such as GRI or SASB. The AA1000AS v3 is also widely accepted by both accountants and non-accountants to provide assurance. It is used across many markets as highlighted by several reports including those issued by KPMG, GRI, UNEP and the World Bank.

We are concerned with the proposal outlined by the XRB for several reasons. These include:

1. Adopting a single assurance standard may result in insufficient assurance resources to respond to the demand from reporting organization to report and assure their data in line with local requirements.

2. It may also result in a loss of speciality knowledge in assuring sustainability information provided by sustainability subject matter experts.
3. Adopting the ISSA 5000, which is yet to be a proven methodology, presents a risk to the competitiveness of the New Zealand assurance market. Currently, there is insufficient use of the ISSA 5000 or the adequacy of training requirements. We recommend keeping a broad and open market for assurance standards is more beneficial.
4. Focusing on standards that only concentrate on data verification may compromise the effectiveness of local organizations meeting sustainability goals. As noted by Farooq and DeVilliers (2020)[1], some standards, such as the AA1000AS v3, go beyond sustainability report verification.

The XRB should promote multiple standards to ensure an open, competitive and fair assurance market that encourages wider representation and competition, particularly from locally based sustainability assurance firms that have speciality experience and knowledge. We have already seen implications of this decision in Australia.

AccountAbility appreciates the opportunity to be a part of this public consultation and would welcome the opportunity to discuss our responses with XRB. Should you have any queries or feedback, please contact standards@accountability.org and let us know your preferred time to set up a call.

We look forward to hearing from you soon.

Best regards,

Melanie O'Brien

Head of Standards

Attached:

Bridging Doc_AA1000AS-ISSA5000 – A comparison of two internationally recognized sustainability assurance standards

[1] Farooq, Muhammad Bilal and de Villiers, Charl, The Shaping of Sustainability Assurance through the Competition between Accounting and Non-Accounting Providers (2019). Accounting, Auditing & Accountability Journal, 32(1), 307-336, **The University of Auckland Business School Research Paper**: https://ssrn.com/abstract=3750418

XRB's Consultation Questions:

Q1: Do you agree with the proposal to adopt ISSA (NZ) 5000 in New Zealand?

Yes, AccountAbility agrees with the adoption of ISSA (NZ) 5000 in New Zealand. However, we also argue that the XRB adopts other relevant assurance standards including the AA1000AS v3.

The AA1000AS v3 is an alternative globally adopted standard for sustainability assurance that has been applied as a central standard both successfully and internationally as highlighted through KPMG, GRI, UNEP and the Centre for Corporate Governance in Africa's report. The AA1000AS v3 includes an evidence-based approach to determine the accuracy of information and offers assurance that is stakeholder centric. Through its focus on the AccountAbility Principles (Inclusivity, Materiality, Responsiveness & Impact), it effectively manages, tests and encourages investment in long term sustainability performance. As noted in The University of Auckland's paper, **the AA1000AS v3 is a tool to promote sustainability within organizations as opposed to mere sustainability report verification**.

Assurance standards are individually unique and can be used for different purposes, as highlighted through AccountAbility's bridging document comparing use of the two leading assurance standards, the ISSA 5000 and AA1000AS v3. Given our strong relationship with other standard setters or equivalent, including B Lab Global, we recognize their desire for flexibility. Therefore, we recommended that XRB allows for any internationally recognized standard, including both the AA1000AS v3 and ISSA 5000, to be adopted. This will ensure that the assurance market in New Zealand remains fair and open whilst also globally competitive. Having spoken to a licensed assurance provider operating in New Zealand, they argued that the more New Zealand can align with international standards, the better and less confusing it will be for auditors and reporting entities alike.

Q2: Is your firm intending to transition to ISSA (NZ) 5000 for sustainability assurance engagements? If yes, when?

This is not applicable – AccountAbility has its own AA1000AS v3 which AccountAbility licensed providers must follow.

\

Q3: Do you agree with the proposed New Zealand changes to ISSA (NZ) 5000:

a) **To clarify the scope**

b) **To address the existence of relationships that the assurance practitioner may have?**

Are there any other matters that you recommend that the XRB add to ISSA (NZ) 5000?

No comment.

Q4: Do you agree with the proposal to adopt the IESSA (NZ) in New Zealand?

We agree with the principle of required compliance with ethical requirements however, we disagree with the adoption of IESSA exclusively. AccountAbility has a Code of Practice which is required when using the AA1000AS v3. It ensures that all providers align with the same ethical standards.

AccountAbility's Code of Practice includes, but is not limited to:

- Exercise due care, diligence, honesty, objectivity and competence
- Disclose capability
- Acknowledge limitations
- Statement of independence and of impartiality
- Ensure personal competence through continuing professional development in sustainability assurance
- Ensure the necessary resources are allocated

By solely aligning with IESSA, some providers may be excluded, and it is likely duplicative for organizations that use any other assurance standard, such as the AA1000AS v3, that has its own required Code of Practice.

AccountAbility recommends XRB set a broader requirement that sustainability assurance providers in New Zealand follow a code of practice or ethical standard. In doing so this will allow providers to have an individual ability of choice dependent on their need and/or ability.

Q5: Is your firm intending to transition to the IESSA (NZ) for sustainability assurance engagements? If yes, when?

This is not applicable – AccountAbility with its AA1000AS v3 has the Code of Practice which all AccountAbility licensed providers must follow.

Q6: Do you agree with the proposed New Zealand changes to IESSA (NZ):

c) To clarify the scope

d) To replicate amendments in PES 1?

Are there any other matters that you recommend the XRB add to IESSA (NZ)?

AccountAbility has no comment on the proposed changes to IESSA. However, AccountAbility recommends that a broader scope of ethical standards related to sustainability assurance are allowed. Please see Q4 for detailed explanation.

Q7: Do you agree with the proposal to adopt the *Revisions to the Code* Addressing *Using the Work of an External Expert* in New Zealand?

AccountAbility agrees with the proposed revisions to the code addressing using the work of an external expert. AccountAbility's AA1000AS requires any experts used to be adept in the following areas:

- Using the AccountAbility Principles; inclusivity, materiality, responsiveness, and impact as a measure of sustainability strategy and forward-looking progress
- Applying the reporting and assurance practices and standards
- Knowledge of sustainability subject matter
- Knowledge of, and ability to assess, stakeholder engagement

By setting these requirements, a high and consistent standard is upheld. From this experience, AccountAbility agrees with the proposed ethical and independence requirements for the work of external experts.

Q8: Are there any New Zealand changes that you recommend the XRB add to the standard *Addressing Using the Work of an External Expert*?

AccountAbility recommends no further changes be made, however does stress the importance of aligning with other existing requirements for external experts, such as those highlighted by AccountAbility in Q7. This has the goal of placing no additional pressure on external practitioners when seeking to comply with requirements of different standards or of different jurisdictions. This will benefit New Zealand by allowing an open, fair and competitive assurance market.

Q9: Do you support adding a third option to NZ SAE 1 to enable assurance practitioners to apply ISSA (NZ) 5000 for mandatory GHG assurance engagements?

Yes, AccountAbility supports enabling assurance practitioners to apply ISSA (NZ) 5000 for mandatory assurance engagements. However, AccountAbility recommends that the options be extended to any relevant standards, including the AA1000AS v3.

Given the aim is to allow practitioners to transition to the latest standards, the ISSA 5000 should be included, however so should other relevant internationally used standards such as the AA1000AS v3. According to the International Federation of Accountants' (IFAC) State of

Play report on Sustainability Disclosure and Assurance and the Centre for Audit Quality's (CAQ) study on the S&P 500 Sustainability Reporting and Assurance Analysis, the AA1000AS v3 is one of the leading standards for the assurance of sustainability related information. AccountAbility's recent guidance document for 'Assuring GHG Emissions with AA1000AS v3' also highlights its strong applicability as an international standard for the assurance of GHG emissions disclosures. Specifically, the AA1000AS v3, through its requirements that those with sustainability expertise carry out engagements, ensures that the verification of technical GHG data is robust as it is done by those with significant expertise in this field. For this reason, the XRB should include a wider scope of applicable assurance standards for assuring GHG disclosures including both the ISSA 5000 and AA1000AS v3.

Q10: Do you support the proposed conditional requirement for one-to-many reports being added to NZ SAE 1?

No comment.

Q11: Do you agree that the XRB should defer any decision to withdraw ISAE (NZ) 3410 to a later date?

No comment.

Q12: Do you agree with the proposed application date for assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026?

The proposal is to align with the effective dates of the international standards.

From our 30 years of experience working with assurance providers, AccountAbility has determined that consultation with them is required when setting application dates and timelines of implementation. This is to ensure that there is an easy transition and that the assurance market in the country of operation remains competitive and of high quality. AccountAbility would welcome the opportunity to convene a discussion between XRB and a licensed assurance provider based in New Zealand to discuss this further.

Q13: Do you have any further comments?

AccountAbility would welcome the opportunity to engage in a conversation with XRB to ensure that a fair and open market is upheld. We would also be happy to discuss our learnings working in the assurance market for over 30 years. If this is something of interest, please contact standards@accountability.org with your preferred time and date.

Friday, 10 October 2025

Graeme Pinfold FCA
Chair, New Zealand Auditing and Assurance Standards Board
PO Box 11250
Manners St Central
Wellington 6142

By email: assurance@xrb.govt.nz

Dear Graeme

Consultation Paper: Alignment with international standards – Sustainability assurance, ethics and independence and using the work of an external expert

Chartered Accountants Australia and New Zealand (CA ANZ) appreciates the opportunity to provide comments to the External Reporting Board (XRB) on the above consultation paper (the CP). We make this submission on behalf of our members and in the public interest. This submission is informed by consultation with our members and our previous advocacy on these topics.

Our position, as stated in our previous submissions to the XRB on sustainability assurance[1], is that there needs to be a global baseline for assurance on sustainability reporting and we support adoption of the IAASB's profession-agnostic overarching standard for assurance on sustainability reporting; ISSA 5000 General Requirements for Sustainability Assurance Engagements (ISSA 5000) and any future ISSA standards, subject to consultation and due process in New Zealand.

[1] Submissions on the IAASB, AUASB and XRB on sustainability assurance | CA ANZ
Joint submission on greenhouse gas emissions assurance | CA ANZ

© Chartered Accountants Australia and New Zealand
ABN 50 084 642 571 (CA ANZ). Formed in Australia. Members of CA ANZ are not liable for the debts and liabilities of CA ANZ.

Key Points

- We support making ISSA (NZ) 5000 available for use in New Zealand by adding it as an option in NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures (NZ SAE 1) as this will allow firms that wish to adopt ISSA 5000 for their broader sustainability assurance services to use a single methodology.
- We also support temporarily retaining ISAE (NZ) 3410 Assurance on Greenhouse Gas Statements as an option in NZ SAE 1 for the purpose of transition.
- We remain concerned about the dual adoption of ISO standards alongside ISAE 5000/3410. The ISO standards operate under a fundamentally different framework, with terminology and assurance concepts that diverge significantly from those used in the IAASB standards and other audited market disclosures in New Zealand and internationally. This divergence risks confusion among users and undermines comparability and consistency in assurance engagements. Moreover, the ISO standards are not freely available for public review or scrutiny, which limits transparency and stakeholder engagement in the standard-setting, assurance and reporting processes. As we noted in our earlier submission on greenhouse gas emissions assurance, such an approach could lead to a two-tier system of assurance, eroding confidence in sustainability reporting and compromising the robustness of governance and oversight arrangements expected by investors and other stakeholders
- We support adopting the IESBA's International Ethics Standards for Sustainability Assurance (Including International Independence Standards) (IESSA) in New Zealand, but we have made some recommendations on improvements to make it fit for purpose in New Zealand.
- We also support the proposed amendments to PES 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (PES 1) in relation to using the work of an external expert but have made some recommendations for the Board to consider.

© Chartered Accountants Australia and New Zealand
ABN 50 084 642 571 (CA ANZ). Formed in Australia. Members of
CA ANZ are not liable for the debts and liabilities of CA ANZ.

Our responses to the specific questions raised in the CP are in Appendix A. Appendix B provides more information about CA ANZ. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact Amir Ghandar FCA, Leader – Reporting and Assurance at Amir.Ghandar@charteredaccountantsanz.com

Sincerely



Peter Vial FCA

New Zealand Country Head



Amir Ghandar FCA

Reporting and Assurance Leader

© Chartered Accountants Australia and New Zealand
ABN 50 084 642 571 (CA ANZ). Formed in Australia. Members of CA ANZ are not liable for the debts and liabilities of CA ANZ.

Appendix A

Responses to specific questions

Q1: Do you agree with the proposal to adopt ISSA (NZ) 5000 in New Zealand?

Yes, we support the adoption of ISSA (NZ) 5000 in New Zealand. As we have stated in our previous submissions to the XRB on sustainability assurance, we believe in the need for a global baseline for sustainability assurance and support the IAASB standards for this purpose. As Australia has adopted ASSA 5000, the adoption of ISSA (NZ) 5000 in New Zealand will enable trans-Tasman harmonisation as well as international harmonisation for New Zealand assurance practitioners.

Q2: Is your firm intending to transition to ISSA (NZ) 5000 for sustainability assurance engagements? If yes, when?

Our understanding is that many assurance practitioners are intending to transition to ISSA (NZ) 5000.

Q3: Do you agree with the proposed New Zealand changes to ISSA (NZ) 5000:

a) **To clarify the scope**
b) **To address the existence of relationships that the assurance practitioner may have? Are there any other matters that you recommend that the XRB add to ISSA (NZ) 5000?**

Yes, we agree with the proposed changes. We have no other recommended changes.

Q4: Do you agree with the proposal to adopt the IESSA (NZ) in New Zealand?

Yes, we support the adoption of the IESSA (NZ) in New Zealand.

However, there are some issues in relation to the adoption of the IESSA that the Board needs to consider. We also raised these matters with the Australian Professional and Ethical Standards Board (APESB) in our submission on its consultation on adopting the IESSA in Australia.

Considerations for NPAPs

There are concerns as to whether the requirements will be consistently applied to voluntary sustainability assurance engagements by assurance practitioners from different professional backgrounds. Some practitioners may not be familiar with certain terminology and concepts

© Chartered Accountants Australia and New Zealand
ABN 50 084 642 571 (CA ANZ). Formed in Australia. Members of CA ANZ are not liable for the debts and liabilities of CA ANZ.

used commonly in external assurance and audit engagements on general purpose corporate reporting. We believe that non-professional accountant practitioners (NPAPs) will need additional implementation guidance. The Board may need to produce implementation guidance for NPAPs if there is not sufficient guidance available from the IESBA.

There is also a risk that disparity in monitoring and enforcement processes for NPAPs compared to PAs may give rise to an actual or perceived two-tier system for voluntary sustainability assurance engagements that could undermine public confidence and trust. We recommend the Board considers providing clarity on the type of oversight arrangements and other professional elements that would be expected to be in place to meet the ethical requirements and Independence Standards in Part 5 of PES 1.

Value chain components

Feedback from our members indicates that this is the most challenging aspect of the ED, especially the interaction with the independence requirements for group sustainability assurance engagements. We note that the table in Appendix 3 of the IESBA Basis for Conclusions is particularly useful in this regard, but its existence may be overlooked. Therefore, we recommend this be elevated to the IESSA (NZ) itself.

We recommend the Board commences a pre-implementation review of the value chain component independence requirements upon the release of the IESSA (NZ) on the basis it would assist firms with this challenging area. Implementation guidance on value chain components prior to the effective date for the provisions in sections 5405 and 5406 would also be well received to assist firms in applying these independence requirements in practice.

In addition, we understand that the value chain component independence requirements cannot be enforced in jurisdictions that have not adopted the IESSA, and that recent updates to the European Union (EU) sustainability regulations create further challenges.

Fees

We are concerned about proposed paragraph R5410.31 requiring the firm providing the sustainability assurance to publicly disclose information regarding fees for PIEs (if the entity does not make the relevant disclosures). In our view, requiring the firm to publicly disclose fee information is not appropriate, and therefore we urge the XRB to not mandate such disclosures.

Such disclosures should be made by the entity and driven by requirements in sustainability reporting standards. The New Zealand Climate Standards do not currently require the

© Chartered Accountants Australia and New Zealand
ABN 50 084 642 571 (CA ANZ). Formed in Australia. Members of
CA ANZ are not liable for the debts and liabilities of CA ANZ.

disclosure of fees for sustainability assurance engagements. Consequentially, this is a matter for the Sustainability Reporting Board to address.

We note that where the same firm conducts the financial statement audit and the sustainability assurance engagement, the entity would be required to disclose in its financial statements the fee for the sustainability assurance engagement as part of the disclosures required in FRS-44 New Zealand Additional Disclosures paragraph 8.3. Given this disclosure is not in the sustainability report or climate statement, users of the sustainability information may not be able to locate it.

Determination of a PIE

We have concerns about proposed paragraph 5400.13a which says that, where an entity is voluntarily treated as a PIE for the financial statement audit, it does not have to be treated as a PIE for the sustainability assurance engagement. We acknowledge that this is unlikely to happen in practice if the same firm is performing both engagements, but complications that are not in the public interest may arise if these engagements are conducted by different firms.

Non-assurance services

In our experience, the self-review threat prohibition is not very well understood amongst NPAPs. The word “might” is not consistently considered as the mere possibility of a self-review threat occurring and is often interpreted as needing to be *probable* that a self-review threat would occur. This appears to be most prevalent in relation to information technology systems services. This misunderstanding will result in misapplication and inconsistencies in practice and implementation guidance should be provided to minimise the possibility of unintended consequences.

Sustainability information definition

We note that the definition of “sustainability information” in the glossary contained in the proposed other revisions to the Code relating to sustainability assurance and ethics ED IESSA (NZ) differs to that in the proposed ISSA (NZ) 5000. Although we recognise the IESBA’s reasoning that the corresponding definitions in ISSA 5000 and Part 5 the IESBA Code are substantively similar and result in the same outcome, we are concerned this may still result in unintended consequences, given that the standards are intended to be applied together. We encourage the XRB to fully align the definitions in the New Zealand context.

© Chartered Accountants Australia and New Zealand
ABN 50 084 642 571 (CA ANZ). Formed in Australia. Members of
CA ANZ are not liable for the debts and liabilities of CA ANZ.

Q5: Is your firm intending to transition to the IESSA (NZ) for sustainability assurance engagements? If yes, when?

Our understanding is that many firms that intend to transition to ISSA (NZ) 5000 would use the IESSA (NZ).

Q6: Do you agree with the proposed New Zealand changes to IESSA (NZ):

a) **To clarify the scope**
b) **To replicate amendments in PES 1?**

Are there any other matters that you recommend the XRB add to IESSA (NZ)?

We agree with the proposed New Zealand changes. Please see our response to question 4 for matters for the Board's consideration in relation to the IESSA (NZ).

Q7: Do you agree with the proposal to adopt the Revisions to the Code Addressing Using the Work of an External Expert in New Zealand?

We support adopting the revisions to PES 1 addressing using the work of an external expert.

However, there are some issues in relation to the proposed revisions that the Board needs to consider. We also raised these matters with the Australian Professional and Ethical Standards Board (APESB) in our submission on its consultation on the same proposed revisions to APES 110.

Objectivity of external experts

While we agree with raising the bar for an external expert's objectivity, members in smaller practices have expressed concerns that the proposed requirements might be challenging to implement due to New Zealand being a smaller market, and the limited number of experts available. To address this, we recommend the Board monitors this as a potential issue and, if necessary, provides guidance on the application of safeguards to address threats to an external expert's objectivity.

Use of a secondary external expert

An external expert may need to supplement their capabilities by directly engaging a secondary external expert for a specific aspect of an engagement. It is not immediately clear that this is permitted by the Code. We recommend the Board clarifies by way of guidance that 'resources available to the external expert' in paragraphs 290.7 A2, 390.7 A2 and 5390.7 A2 include a secondary external expert and hence is a relevant factor in evaluating whether the external expert has the necessary capabilities. The IESBA has addressed this in Q5 of its Staff Q&As, and the APESB has done this in its Basis for Conclusions.

© Chartered Accountants Australia and New Zealand
ABN 50 084 642 571 (CA ANZ). Formed in Australia. Members of
CA ANZ are not liable for the debts and liabilities of CA ANZ.

Q8: Are there any New Zealand changes that you recommend the XRB add to the standard Addressing Using the Work of an External Expert?

We do not have any additional New Zealand changes to recommend.

Q9: Do you support adding a third option to NZ SAE 1 to enable assurance practitioners to apply ISSA (NZ) 5000 for mandatory GHG assurance engagements?

Yes, we support adding a third option to NZ SAE 1 enabling assurance practitioners to apply ISSA (NZ) 5000 for mandatory GHG assurance engagements as this will allow them to use a single methodology for both mandatory and voluntary sustainability assurance if they choose to adopt ISSA (NZ) 5000.

Q10: Do you support the proposed conditional requirement for one-to-many reports being added to NZ SAE 1?

We support the amendment to introduce conditional requirements for one-to-many reports to NZ SAE 1. As the stated purpose of the amendment is to drive consistency in practice by introducing similar requirements to ISSA (NZ) 5000, we recommend that the Board also considers whether there is also content in paragraphs 52, 54 and 55 of ISSA (NZ) 5000 which may also be relevant to practitioners who are not applying ISSA (NZ) 5000.

Q11: Do you agree that the XRB should defer any decision to withdraw ISAE (NZ) 3410 to a later date?

Given that NZ SAE 1 currently includes ISAE (NZ) 3410 as one of the options, we agree that it is appropriate to temporarily retain ISAE (NZ) 3410 during a reasonable period of transition until ISSA (NZ) 5000 has been implemented in the New Zealand market.

Q12: Do you agree with the proposed application date for assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026? The proposal is to align with the effective dates of the international standards.

Yes, we agree with the proposed application date.

Q13: Do you have any further comments?

In the CP the Board stated that it is interested in how practitioners are dealing with scope 3 GHG assurance engagements. We made comments on this matter in our recent submission to the XRB on the proposals to further extend the adoption provisions for the disclosure and assurance of scope 3 GHG emissions.

© Chartered Accountants Australia and New Zealand
ABN 50 084 642 571 (CA ANZ). Formed in Australia. Members of
CA ANZ are not liable for the debts and liabilities of CA ANZ.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 140,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

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

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

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

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

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 16 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

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

© Chartered Accountants Australia and New Zealand
ABN 50 084 642 571 (CA ANZ). Formed in Australia. Members of CA ANZ are not liable for the debts and liabilities of CA ANZ.

CPA Australia Ltd
ABN 64 008 392 452
Level 20, 28 Freshwater Place
Southbank VIC 3006 Australia
GPO Box 2820 Melbourne
VIC 3001 Australia
T 1300 737 373
Outside Aust +613 9606 9677
cpaaustralia.com.au

10 October 2025

Mr Graeme Pinfold
Chair, New Zealand Auditing and Assurance Standards Board
PO Box 11250
Manners St Central
Wellington 6142
NEW ZEALAND

Via online submission: https://www.xrb.govt.nz/consultations/assurance-standards-in-development/international-alignment-consultation/

Dear Graeme,

Consultation document - Alignment with international standards: Sustainability Assurance, Ethics and Independence, and Using the Work of an External Expert

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 174,000 members who work in diverse roles across public practice, commerce, industry, government and academia throughout New Zealand, Australia and internationally. We welcome the opportunity to provide feedback on the above consultation and make this submission on behalf of our members and in the public interest.

CPA Australia appreciates the opportunity to provide feedback on the proposed updates to NZ SAE 1 and ISSA (NZ) 5000. For trans-Tasman assurance engagements, we are disappointed that the current temporary standard, NZ SAE 1, has not been withdrawn and replaced with ISSA (NZ) 5000. Given Australia's adoption of both ISSA 5000 and IESSA, it would be ideal for New Zealand to align with these internationally recognised, profession-agnostic standards to reduce fragmentation and promote consistency across jurisdictions.

We acknowledge the challenges the XRB faces and understand that a 'wait and see' approach may be appropriate and pragmatic in the current dynamic and evolving environment, but not sustainable in the long-term. Therefore, prolonging this interim arrangement further will require a compelling rationale. We are concerned that the current proposal may introduce additional complexity without delivering proportionate benefits to the New Zealand market as a whole. To support market readiness and long-term alignment with global best practice, we encourage the XRB to provide clearer direction of the future end goal, including a mapped transition pathway and review mechanism, to guide the profession toward a unified and sustainable assurance framework.

Our detailed responses to the consultation questions are included in the **Attachment** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Tiffany Tan, Audit and Assurance Policy Lead at Tiffany.Tan@cpaaustralia.com.au or Belinda Zohrab-McConnell, Regulation and Standards Lead at Belinda.Zohrab-McConnell@cpaaustralia.com.au

Yours sincerely,

Elinor Kasapidis
Chief of Policy, Standards & External Affairs

Attachment

Issue ISSA (NZ) 5000

1. Do you agree with the proposal to adopt ISSA (NZ) 5000 in New Zealand?

Yes, we agree and strongly support the adoption of ISSA (NZ) 5000 in New Zealand.

However, the approach to adopt ISSA (NZ) 5000 warrants further consideration, which we address in our response to Question 9 below.

2. Is your firm intending to transition to ISSA (NZ) 5000 for sustainability assurance engagements? If yes, when?

Feedback from CPA Australia members indicates that many audit firms in New Zealand currently apply ISAE 3410 and ISAE 3000 for sustainability assurance engagements. However, for trans-Tasman engagements, there is a clear intention among firms to transition to ISSA (NZ) 5000 as soon as they can to ensure consistency and comparability with Australian and international standards. This alignment is seen as critical to reducing regulatory burden and enhancing the credibility of sustainability disclosures across jurisdictions.

Our understanding is all the large audit firms (commonly referred to as the Big 6–7) have already commenced transitioning to ISSA (NZ) 5000, with implementation activities actively underway. This reflects strong industry readiness and a commitment to adopting globally recognised assurance frameworks by December 2026. This is because their largest clients operate internationally, and aligning assurance practices including ethical requirements as much as possible helps minimise compliance costs and complexity.

It is also noted that only a small cohort of smaller firms and those operating under ISO-based assurance frameworks currently provide assurance services under the mandatory climate-related disclosure regime. These firms may require additional time and support to develop methodologies that fully align with ISSA (NZ) 5000. Their existing practices often align only at a high level, which could result in inconsistencies in assurance quality across the market.

CPA Australia recommends that targeted guidance, capacity-building initiatives, and transitional resources be made available to support equitable implementation and ensure market-wide consistency.

3. Do you agree with the proposed New Zealand changes to ISSA (NZ) 5000:
a) To clarify the scope
b) To address the existence of relationships that the assurance practitioner may have?
Are there any other matters that you recommend that the XRB add to ISSA (NZ) 5000?

Part (a):

CPA Australia broadly supports the proposed clarification of scope within ISSA (NZ) 5000. This is particularly important given the XRB's intention to include ISSA (NZ) 5000 as one of the three permissible assurance frameworks under the temporary standard NZ SAE 1 for mandatory greenhouse gas (GHG) emissions disclosures.

We also support the following enhancements:

- Amending references from "listed entities" to "FMC reporting entities" to better reflect the New Zealand regulatory context.
- Including the name of the engagement leader in the assurance report, which promotes transparency and accountability in assurance engagements.

These changes will help ensure clarity for practitioners and users of assurance reports, and support alignment with local legislative frameworks.

Part (b):

We support the proposal to extend the requirement to consider relationships not only with the entity but also with its subsidiaries. In practice, audit professionals already assess independence at both a group and individual reporting entity level, and formalising this requirement promotes consistency and reinforces the profession-agnostic nature of ISSA 5000. We note that significant investments have already been made by accounting firms to ensure robust independence compliance with the IESSA code and ISSA 5000. Any changes should recognise and build upon these existing systems.

To promote consistency in reporting, we recommend that illustrative wordings similar to those found in Appendix 2 to ISA (NZ) 700 be included in ISSA (NZ) 5000. This would provide practical guidance for assurance practitioners and help standardise the presentation of assurance conclusions across the market.

Issue IESSA (NZ)

4. Do you agree with the proposal to adopt the IESSA (NZ) in New Zealand?

We support the proposal to adopt the IESSA (NZ) in New Zealand. Doing so is consistent with New Zealand's position since 2022 when climate standards were first issued and since 2024 when assurance over GHG emissions disclosures was first required.

However, we do not support retaining the temporary standard NZ SAE 1 for mandatory greenhouse gas (GHG) emissions disclosures indefinitely.

While the ethical requirements set out at paragraphs 13 to 23 of NZ SAE 1 align at a very high level with those of PES 1, noting that PES 1 (which is consistent with the International Code of Ethics) applies to assurance organisations or assurance practitioners who are members of CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ), those sustainability assurance practitioners who are not members of CPA Australia or CA ANZ are obliged to follow ethical standards which are less rigorous than those which members of CPA Australia and CA ANZ are obliged to follow. By retaining NZ SAE 1, a two–tiered standard of ethical requirements including independence requirements standards results between accountants and non-accountants.

5. Is your firm intending to transition to the IESSA (NZ) for sustainability assurance engagements? If yes, when?

Feedback from CPA Australia members working for New Zealand reporting entities indicates that many audit firms intend to transition to the IESSA (NZ). As noted at Question 4 above, members of CPA Australia are already obligated to comply with the ethical requirements of PES 1. By transitioning to IESSA (NZ) in respect of mandatory GHG assurance engagements as well as other sustainability assurance engagements, we strongly believe our members will maintain a single standard of high ethical compliance.

6. Do you agree with the proposed New Zealand changes to IESSA (NZ):
a) To clarify the scope
b) To replicate amendments in PES 1?
Are there any other matters that you recommend the XRB add to IESSA (NZ)?

Part (a):

CPA Australia agrees with the clarification that a sustainability assurance practitioner shall apply the independence requirements set out in NZ SAE 1 when conducting an assurance engagement for the disclosures within the climate statements relating to GHG emissions disclosures. However, paragraph 12 of NZ SAE 1 sets out that an assurance organisation or assurance practitioners shall comply with relevant accreditation or professional body requirements, including applicable ethical and quality management requirements that apply to them. As noted at Question 4 above, for members of CPA Australia PES 1 however, for sustainability assurance providers, this could mean no other ethical or quality management obligations may apply. Our members are concerned this two-tiered system of ethical obligations creates an unfair playing field in the sustainability assurance provider market and may result in two differing levels of assurance quality.

Our members encourage XRB to consider requiring all sustainability assurance providers to apply IESSA (NZ) to support consistency and quality of sustainability assurance engagements in New Zealand.

Part (b):
Yes, the changes proposed reduce ambiguity such as the complete prohibition against receiving referral fees or commissions at NZ R3330.5 and NZ 5330.5 A1.1.

Issue Revisions to the Code Addressing Using the Work of an External Expert applicable to all assurance engagements

7. Do you agree with the proposal to adopt the Revisions to the Code Addressing Using the Work of an External Expert in New Zealand?

Yes, however, please see our concerns in our response to question 8 below.

8. Are there any New Zealand changes that you recommend the XRB add to the standard Addressing Using the Work of an External Expert?

We do not propose specific additions to the standard at this time. However, we wish to raise a high-level concern regarding the proportionality and scalability of applying the principle of objectivity in practice within the New Zealand context.

As outlined in our earlier submissions to the IESBA, IAASB and AUASB, we remain concerned about the practical implications of certain provisions introduced by the IESBA, particularly those relating to the evaluation of an external expert's objectivity. The high threshold established by the IESBA Code for assessing objectivity may present implementation challenges for assurance practitioners, especially in emerging areas such as sustainability assurance. In many such contexts, relevant experts may not be subject to the same professional standards or oversight frameworks as assurance practitioners. Consequently, practitioners may be unable to obtain the level of information required by the IESBA Code, even where the expert otherwise meets competence and capability criteria. This limitation could inadvertently restrict the use of appropriate external expertise, potentially impacting the quality of assurance engagements.

In the New Zealand context, where the market comprises a relatively small pool of practitioners and experts compared to larger jurisdictions, we urge the XRB to carefully consider the potential implications of setting such a high threshold for evaluating objectivity. This may amplify implementation challenges and limit access to suitable expertise.

We therefore encourage the XRB to remain alert to these practical risks and implementation challenges as it finalises its adoption of the IESBA standard on Using the Work of an External Expert. It is important that standard-setting outcomes support the delivery of high-quality assurance in practice from the outset.

To mitigate these risks, we recommend that the XRB consider proactive monitoring, provide implementation guidance, and explore the possibility of an earlier post-implementation review. These steps would help identify and address any unintended consequences, ensuring that high-quality assurance remains achievable without compromising access to appropriate expertise.

Amend NZ SAE 1

9. Do you support adding a third option to NZ SAE 1 to enable assurance practitioners to apply ISSA (NZ) 5000 for mandatory GHG assurance engagements?

Context and General Position

CPA Australia acknowledges the XRB's proposal to retain the current temporary standard, NZ SAE 1, and to add ISSA (NZ) 5000 as a third option for mandatory greenhouse gas (GHG) assurance engagements, effective for periods beginning on or after 15 December 2026.

While the decision to delay full adoption of ISSA (NZ) 5000 as the only assurance standard for GHG and broader sustainability assurance engagements is disappointing, we understand the evolving regulatory environment in which the XRB is operating. The delay in the New Zealand Government's decision on sustainability reporting and assurance, combined with significant international developments, such as the European Commission's first 'Omnibus' recommendations to simplifies rules on sustainability and the evolving/rollbacks U.S. position on climate-related disclosures, has created a dynamic and uncertain landscape. In this context, we appreciate the rationale behind the XRB's cautious 'wait and see' approach.

Support for ISSA (NZ) 5000

CPA Australia strongly supports the adoption of ISSA (NZ) 5000 as the preferred framework for mandatory GHG assurance engagements. NZ SAE 1 was always intended as an interim measure, with a revocation clause once relevant international standards became available (FMCA 2013, paras A1–A2). ISSA (NZ) 5000 represents a globally aligned, profession-agnostic standard that enhances credibility, consistency, and comparability in sustainability assurance.

Feedback from members indicates that most large firms are already preparing to transition to ISSA (NZ) 5000, reflecting industry readiness and alignment with international best practice. Please also see our response to Question 2 above.

Concerns with Maintaining Multiple Frameworks

Noting XRB's rational for the 'wait and see' approach, we wanted to note that maintaining three options, ISO 14064-3, ISAE (NZ) 3410, and ISSA (NZ) 5000, raises several concerns:

- *Regulatory Complexity:* Multiple frameworks increase the burden on regulators, making oversight and enforcement more difficult.
- *Market Fragmentation:* The coexistence of ISO-based and ISAE/ISSA standards-based approaches leads to inconsistent methodologies, practices and varying interpretations across the profession.
- *Assurance Quality and Consistency:* Variability in assurance methodologies and reporting structures undermines confidence in disclosures and creates confusion for users and the reporting entities itself.
- *Comparability:* Allowing multiple frameworks reduces comparability across reports, which is critical for investors and other stakeholders relying on climate-related disclosures.

Stakeholders have also shared concerns that while flexibility in choosing a standard (ISO 14064-3, ISAE (NZ) 3410, and ISSA (NZ) 5000) may be welcomed, it could be driven by cost rather than quality. However, most agree that high-profile entities are likely to engage firms applying recognised professional standards. That said, the existence of multiple options increases compliance complexity.

Recommendations for Enhancing Clarity and Transition Planning

CPA Australia recommends that the XRB provide greater clarity and direction regarding the future of NZ SAE 1 and the intention to transit to ISSA (NZ) 5000 as the sole assurance standard for sustainability engagements.

NZ SAE 1 was always intended to serve as a temporary standard, pending the development of a profession-agnostic international sustainability assurance standard, now realised in ISSA (NZ) 5000. To support assurance practitioners and promote consistency across the market, we recommend that the XRB:

- *Map out a clear transition pathway*, including the expected retirement of NZ SAE 1 and the eventual adoption of ISSA (NZ) 5000, ideally aligning with international effective date of December 2026 as the primary and only standard for mandatory GHG assurance engagements and future mandatory climate/sustainability assurance engagements.
- *Commit to an active and formal review of NZ SAE 1 yearly*, assessing its continued appropriateness in light of local/international developments and domestic readiness. This review cycle would provide assurance practitioners with critical information and a predictable timeframe for transition planning.
- *Communicate a long-term vision* for sustainability assurance in New Zealand, including alignment with global standards and expectations from regulators, investors, and other stakeholders. While a 'wait and see' approach may be appropriate in the current dynamic environment, with competing and offsetting considerations, it is essential that New Zealand does not default to maintaining legacy standards that no longer reflect global best practice simply to accommodate all market participants.
- *Provide transitional support*, including guidance materials, and illustrative examples (e.g., assurance report templates), to assist firms, particularly smaller and ISO-based practitioners, in adapting to ISSA (NZ) 5000.

Establishing a clear roadmap will help reduce uncertainty, support market readiness, and ensure New Zealand remains aligned with international best practice in sustainability assurance.

10. Do you support the proposed conditional requirement for one-to-many reports being added to NZ SAE 1?

Yes, we support the proposed conditional requirement being added to NZ SAE 1 to align with ISSA (NZ) 5000.

Retain ISAE (NZ) 3410

11. Do you agree that the XRB should defer any decision to withdraw ISAE (NZ) 3410 to a later date?

CPA Australia acknowledges the XRB's proposal to defer the decision to withdraw ISAE (NZ) 3410. In the current complex and evolving regulatory environment, a 'wait and see' approach may be appropriate and pragmatic. We recognise the challenges the XRB faces, including delays in domestic policy decisions and significant international developments that continue to reshape the sustainability assurance landscape.

However, while short-term deferral may be justified, greater clarity and direction are needed. Specifically, we note that the IAASB has announced the withdrawal of ISAE 3410 effective 15 December 2026. If the XRB intends to retain ISAE (NZ) 3410 beyond this date, it will need to assume responsibility for maintaining and updating the standard independently. This could introduce additional complexity, resource requirements, and potential divergence from international practice.

As highlighted in our response to Question 2, most large firms in New Zealand have already commenced transitioning to ISSA (NZ) 5000. This reflects strong industry momentum toward international alignment and suggests that ISAE (NZ) 3410 may have limited future relevance.

To inform future decisions, we recommend that the XRB:

- Conduct further research or a targeted survey of the New Zealand assurance market to assess the anticipated usage of ISAE (NZ) 3410 beyond December 2026.
- Evaluate the cost-benefit of retaining the standard, including the implications for regulatory oversight, practitioner burden, and market consistency.
- Map out a transition pathway, including a commitment to review the appropriateness of retaining ISAE (NZ) 3410 at regular intervals (e.g., every year), aligned with broader efforts to consolidate sustainability assurance under ISSA (NZ) 5000.

This will help assess the cost-benefit of retaining the standard and inform future decisions. The transition pathway will also provide assurance practitioners with the clarity and predictability needed to plan for transition, while ensuring New Zealand remains aligned with global best practice.

Applicable date of all standards

12. Do you agree with the proposed application date for assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026? The proposal is to align with the effective dates of the international standards.

Yes, we agree.

Other

13. Do you have any further comments?

CPA Australia recently completed a survey in response to the XRB's proposed 2025 amendments to climate and assurance standards. Feedback from members were mixed regarding the timing of mandatory Scope 3 greenhouse gas emissions reporting and assurance. While there is broad recognition of Scope 3's importance in capturing an entity's full climate impact, views varied on market readiness and the practicality of implementation timelines.

After carefully considering the range of perspectives and the rationale provided, CPA Australia marginally supports the final option, that is extending the transitional period by four or more years. We believe this approach better balances ambition with feasibility and allow time for capability building across the market.

We encourage the XRB to continue monitoring international developments and remain open to reassessing its position as new information and practices emerge.

Deloitte.

Deloitte
Deloitte Centre Whiria Te Kaha
Level 20, 1 Queen Street
Auckland 1010

Private Bag 115033
Shortland Street
Auckland 1140
New Zealand

Phone: +64 9 303 0700
www.deloitte.co.nz

10 October 2025

External Reporting Board
Level 6/154 Featherston St
Wellington 6011

assurance@xrb.govt.nz

Deloitte Submission on the *Alignment with international standards: Sustainability Assurance, Ethics and Independence and Using the Work of an External Expert*

Thank you for the opportunity to provide comment on the External Reporting Board's *Alignment with international standards: Sustainability Assurance, Ethics and Independence and Using the Work of an External Expert*.

In our previous submissions (to the XRB and MBIE), we have supported alignment with international reporting and assurance standards, as well as alignment around who has to report (legislative thresholds, where appropriate) and director / auditor liability settings with key international counterparts, in particular Australia.

For this submission, it is our view that New Zealand should align to the international standards to achieve global harmonisation as this lowers the risk of regulatory fragmentation and confusion in the sustainability standard-setting landscape, reducing cost and complexity for preparers and users.

We have included our comments in Appendix 1 in response to the specific questions raised. Please do not hesitate to contact us should you require further clarification on any of the matters discussed.

Yours sincerely



Victoria Turner
Partner



Suné Strydom
Partner

for Deloitte Limited

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organisation"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which is a separate and independent legal entity, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Bengaluru, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Mumbai, New Delhi, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

Deloitte.

Appendix 1	
Issue ISSA (NZ) 5000	
1	Do you agree with the proposal to adopt ISSA (NZ) 5000 in New Zealand?
	Yes, we support harmonisation with international standards and agree that New Zealand should align with the *International Standard on Sustainability Assurance (ISSA) 5000 – General Requirements for Sustainability Assurance Engagements* ('ISSA (NZ) 5000') as the sole standard for sustainability assurance. Alignment with international standards for both preparers and assurance providers (being those issued by the International Sustainability Standards Board and International Auditing and Assurance Standards Board) is essential to ensure New Zealand entities can continue to access global capital with minimal cost and effort. The presence of multiple standards and frameworks can lead to market confusion and reduce the clarity and comparability of sustainability disclosures. Having a single, globally recognised assurance standard alongside a single, internationally aligned sustainability reporting framework, would benefit both assurance practitioners and users in New Zealand. Fragmented sustainability assurance standards result in inconsistent practices, reduced comparability, and added complexity – particularly for multinational entities. A single, globally recognised standard would promote consistency, improve quality, and simplify cross-border assurance. It would also give firms the confidence to invest in the infrastructure – systems, templates, and methodologies – needed to deliver high-quality engagements, supporting global capability building and enabling a more scalable assurance environment.
2	Is your firm intending to transition to ISSA (NZ) 5000 for sustainability assurance engagements? If yes, when?
	The New Zealand firm would look to adopt ISSA (NZ) 5000 for periods beginning on or after 15 December 2026, in accordance with its international effective date, should this be permitted.
3	Do you agree with the proposed New Zealand changes to ISSA (NZ) 5000: a) To clarify the scope b) To address the existence of relationships that the assurance practitioner may have? Are there any other matters that you recommend that the XRB add to ISSA (NZ) 5000?
	a) <u>Response in relation to proposed New Zealand changes to clarify scope:</u> **Paragraph NZ8A of ED ISSA (NZ) 5000 states: "*The practitioner shall apply New Zealand Standard on Assurance Engagements 1 when conducting an assurance engagement for the disclosures within the climate statements relating to Greenhouse Gas emissions required by the Financial Markets Conduct Act 2013 to be the subject of an assurance engagement.*"** We recommend that New Zealand Standard on Assurance Engagements 1 – *Assurance Engagements over Greenhouse Gas Emissions Disclosures* ('NZ SAE 1') be retained **only as a temporary transitional standard**, with a clear intention to withdraw it once ISSA (NZ) 5000 becomes effective for periods beginning on or after 31 December 2026. ISSA (NZ) 5000 provides a comprehensive framework for assurance over all sustainability-related matters, including greenhouse gas emissions and is intended for assurance engagements on sustainability information of all entities, regardless of size or complexity. Furthermore, the standard is profession agnostic indicating that assurance practitioners from any profession can use the standard, provided they comply with relevant ethical requirements and apply a system of quality management that is at least as rigorous as the International Code of Ethics for Professional Accountants and the IAASB's suite of quality management standards. To support consistency and comparability across jurisdictions, we favour minimal local modifications to ISSA (NZ) 5000 and encourage the External Reporting Board to adopt it as the sole standard for sustainability assurance in New Zealand. We note that the intent behind NZ SAE 1, is to ensure that the assurance regime remains open to all competent, independent assurance practitioners, including non-accounting professionals. With the profession agnostic status of ISSA (NZ) 5000, we strongly encourage the XRB to revisit the need for NZ SAE 1, noting that ISAE 3410 is being

Deloitte.

	withdrawn and replaced with ISSA 5000 internationally. Furthermore, the XRB's recent GHG Assurance Snapshot (September 2025) suggests the use of ISO-based approaches is limited: • **70 of the 79** engagements cited applied International Standard on Assurance Engagements (New Zealand) 3410 – *Assurance Engagements on Greenhouse Gas Statements* ('ISAE 3410'); and • **Only 8** applied ISO 14064-3:2019: *Greenhouse gases — Part 3: Specification with guidance for the verification and validation of greenhouse gas statements* ('ISO 14064-3:2019'). **In addition to the above, we note the inclusion of the requirement in paragraph NZ191 "*When the assurance report on sustainability information is for a FMC reporting entity considered to have a higher level of public accountability, the name of the engagement leader shall be included, unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.*"** While our preference is for limited NZ amendments to international standards for the reasons set out above, we accept that this NZ amendment is consistent with the New Zealand approach in the ISAs (NZ) and ISAEs (NZ) for FMC reporting entities considered to have higher level of public accountability. **b) <u>Response in relation to proposed New Zealand changes to address the existence of relationships that the assurance practitioner may have:</u>** **Paragraph 190. NZ(v)(a) requires the assurance report to include "*A statement as to the existence of any relationship (other than that of practitioner) which the practitioner has with, or any interests which the practitioner has in, the entity or any of its subsidiaries.*"** While our preference is for limited NZ amendments to international standards for the reasons set out above, we accept that this NZ amendment is consistent with other New Zealand audit and assurance standards issued by the XRB.
Issue IESSA (NZ)	
	Do you agree with the proposal to adopt the IESSA (NZ) in New Zealand?
4	Yes, we support the proposal to adopt the IESSA (NZ) in New Zealand. Our firm encourages international alignment, and we agree that New Zealand should harmonise with the International Ethics Standards for Sustainability Assurance (IESSA). The adoption of ethical and independence standards tailored to sustainability assurance is essential to building trust and credibility in sustainability information. As noted in Deloitte Global's submission to the Exposure Draft, *Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting*: "Given the increasing number of sustainability reporting frameworks and the diverse nature of sustainability assurance practitioners, it is imperative that the assurance provided is high quality, consistent and comparable. Having assurance and ethics standards that are framework-neutral, and profession-agnostic are key in strengthening public trust in the overall sustainability reporting and assurance environment." Aligning New Zealand's ethical standards with the international IESSA will promote global consistency, reduce fragmentation, and support the development of scalable assurance capabilities across firms and markets. Furthermore, many New Zealand firms are members of a global network ('network firms') and use globally developed methodology and tools based on international standards when undertaking assurance engagements. Lack of harmonisation means that New Zealand firms will have to introduce workarounds in their systems of quality management to bridge the gap in requirements, such as changes to tools and templates and to monitoring activities. These activities add to the cost of an assurance engagement in New Zealand and increase the risk of inadvertent non-compliance (particularly for multi-national engagements).
	Is your firm intending to transition to the IESSA (NZ) for sustainability assurance engagements? If yes, when?
5	The New Zealand firm would look to adopt IESSA (NZ) for periods beginning on or after 15 December 2026, in accordance with its international effective date, should this be permitted.

Deloitte.

	Do you agree with the proposed New Zealand changes to IESSA (NZ): a) To clarify the scope b) To replicate amendments in PES 1? Are there any other matters that you recommend the XRB add to IESSA (NZ)?
6	**a) <u>Response in relation to proposed New Zealand changes to clarify scope:</u>** **Paragraph NZ R5100.0 states that *"A sustainability assurance practitioner shall apply the independence requirements in NZ SAE 1 when conducting an assurance engagement for the disclosures within the climate statements relating to greenhouse gas emissions required by the Financial Markets Conduct Act 2013 to be the subject of an assurance engagement."*** NZ SAE 1 embeds ethical and independence requirements for practitioners who may not be required to comply with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* ('PES 1'), Professional and Ethical Standard 3 – *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* ('PES 3') and Professional and Ethical Standard 4 – *Engagement Quality Reviews* ('PES 4'). We believe the ethical framework provided by IESSA (NZ) to be issued by the XRB as part 5 in PES 1 addresses the original intent of NZ SAE 1, as IESSA (NZ) is designed to apply to **all sustainability assurance practitioners**, including those who are not professional accountants. As stated in ED IESSA (NZ) Section 5100.2b: "*A practitioner who is not a professional accountant is encouraged to apply Parts 1 to 4B of the Code to guide the practitioner's general conduct. Adhering to the ethics (including independence) standards set out in the Code (or other ethics standards at least as demanding as the Code) in all professional activities contributes to public trust in sustainability information that is subject to assurance*." This inclusive approach aligns with the IAASB's ISSA 5000, which is also profession-agnostic and intended for use by both accountants and non-accountants. Together, these standards provide a comprehensive framework for ethical conduct and independence in sustainability assurance. We therefore recommend that NZ SAE 1 be **withdrawn** once IESSA (NZ) and ISSA 5000 become effective. Furthermore, the **GHG Assurance Snapshot (September 2025)** shows that a majority of assurance engagements (68 out of 79) applied PES 1. This data suggests that most practitioners already apply the XRB's internationally aligned Ethical and Independence standards, and the use of other ethical standards and frameworks is limited. While IESSA (NZ) is not itself a quality management standard, paragraph 5400.3(f) clarifies that high-quality sustainability assurance relies on a firm's system of quality management that complies with standards such as PES 3 or equivalent requirements. Therefore, practitioners who are not subject to PES 3, will need to either apply PES 3 or develop a system that is **at least as rigorous**. This is a critical implementation consideration, particularly for non-audit firms seeking to apply IESSA (NZ) and ISSA 5000, and should these standards be adopted and NZ SAE 1 withdrawn, additional guidance and support to help these practitioners meet the necessary quality management expectations may be required. **b) <u>Response in relation to proposed New Zealand changes to replicate PES1:</u>** The XRB proposes some specific New Zealand amendments to replicate amendments that have been made to PES 1 for audits and reviews of financial statements that are equally relevant to sustainability assurance. These amendments include the following: • **application material to advise practitioners to seek legal advice when disclosing confidential information (NZ 5114.3 A1.1)** • **amendments relating to the disclosure of safeguards (NZ R5310.9.1, NZ R5310.9.2 and NZ R5310.12.1) and service as a director or officer (NZ R5523.3.1)** • **amendments relating to a prohibition for an assurance practitioner to accept or pay referral fees (NZR5330.5)** • **a requirement, when an assurance practitioner identifies multiple threats to independence, which individually may not be significant, to evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level (NZ R5400.19.1)** • **additional application material regarding the provision of tax advisory planning and advisory services (NZ 5604.12.A2.1).**

Deloitte.

	While our preference is for limited NZ amendments to international standards for the reasons set out above, we accept that these NZ amendments are consistent with those in PES 1.
Issue *Revisions to the Code Addressing Using the Work of an External Expert* applicable to all assurance engagements	
7	Do you agree with the proposal to adopt the *Revisions to the Code Addressing Using the Work of an External Expert* in New Zealand?
	Yes, we support harmonisation with the international standards, therefore we agree that New Zealand should align to the *Revisions to the Code Addressing Using the Work of an External Expert*.
8	Are there any New Zealand changes that you recommend the XRB add to the standard *Addressing Using the Work of an External Expert*?
	We do not believe that any divergence is required from the international standard.
Amend NZ SAE 1	
9	Do you support adding a third option to NZ SAE 1 to enable assurance practitioners to apply ISSA (NZ) 5000 for mandatory GHG assurance engagements?
	For the reasons set out above, we recommend that NZ SAE 1 be withdrawn once IESSA (NZ) and ISSA (NZ) 5000 become effective. However, should the XRB not withdraw NZ SAE 1, we support the inclusion of ISSA (NZ) 5000 as option to be used for mandatory assurance engagements.
10	Do you support the proposed conditional requirement for one-to-many reports being added to NZ SAE 1?
	For the reasons set out above, we recommend that NZ SAE 1 be withdrawn once IESSA (NZ) and ISSA (NZ) 5000 become effective. ISSA (NZ) 5000 already includes provisions for using one-to-many reports to address the challenges of gaining assurance over value chain information. However, should the XRB not withdraw NZ SAE 1, we support the inclusion of the proposed conditional requirements in NZ SAE 1.
Retain ISAE (NZ) 3410	
11	Do you agree that the XRB should defer any decision to withdraw ISAE (NZ) 3410 to a later date?
	We do not support the retention of ISAE (NZ) 3410**.** With the introduction of ISSA (NZ) 5000, we expect most practitioners will transition to the new standard. Retaining ISAE (NZ) 3410 risks creating confusion and inconsistency in the market, particularly for investors and other users of assurance reports. As the IAASB has withdrawn the international version, we encourage the XRB to align with this decision to ensure clarity and coherence across the assurance framework.
Applicable date of all standards	
12	Do you agree with the proposed application date for assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026? The proposal is to align with the effective dates of the international standards.
	Yes, we agree with international alignment of the effective date of all standards. We note that the XRB consultation document on page 6 states that "*We propose issuing the new international assurance, ethics and independence standards, with relevant New Zealand amendments, to be applicable for* ***periods ending on or after 15 December 2026***." We have interpreted this as intending to align with the international standards, which apply to **periods beginning on or after that date**.

Deloitte.

Other Comments	
	Do you have any further comments?
13	We have previously expressed concern about the ongoing use of ISO 14064-3: 2019 *Greenhouse gases – Part 3: Specification with guidance for the verification and validation of greenhouse gas statements* under NZ SAE 1. In our view, this is not an appropriate framework for assurance, as it is not publicly available free of charge. This lack of accessibility reduces transparency and increases the potential for misunderstanding, which is inconsistent with the principles of high-quality assurance.

Shape the future with confidence

Ernst & Young Limited
2 Takutai Square
Britomart
Auckland 1010
PO Box 2146 Auckland 1140

Tel: +64 9 377 4790
Fax: +64 9 309 8137
ey.com/nz

External Reporting Board
154 Featherston St
Wellington, New Zealand

10 October 2025

Submitted via email: sustainability@xrb.govt.nz

EY Submission on Alignment with international standards: Sustainability Assurance, Ethics and Independence, and Using the Work of an External Expert

Dear Sir / Madam,

Ernst & Young New Zealand (EYNZ) welcomes the opportunity to respond to the External Reporting Board (XRB)'s consultation paper "Alignment with international standards. Sustainability Assurance, Ethics and Independence, and Using the Work of an External Expert".

EYNZ is broadly supportive of the XRB's proposals in the consultation paper to adopt International Standard on Sustainability Assurance (New Zealand) 5000, *General Requirements for Sustainability Assurance Engagements* (ISSA (NZ) 5000) and International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand) (IESSA (NZ)), with relevant New Zealand amendments, to be applicable for periods beginning on or after 15 December 2026.

EY globally is intending to incorporate into its methodology, independence and ethics policies the international versions of ISSA (NZ) 5000 and IESSA (NZ) in accordance with the effective dates of these standards. If these standards are adopted, for entities assured in New Zealand, EYNZ intends to adopt our international methodology with New Zealand specific amendments incorporated, as appropriate.

We also support the XRB's proposal to adopt the Revisions to the Code Addressing Using the Work of an External Expert, without any New Zealand specific changes to recommend.

However, we make the following observations regarding the XRB's proposals:

1. We believe that adoption of ISSA (NZ) 5000 should lead to the removal of NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures* (and the option of use of ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements* (ISAE (NZ) 3410) and ISO 14064:3-2019 *Greenhouse gases — Part 3: Specification with guidance for the verification and validation of greenhouse gas statement* (ISO 14064:3-2019) for mandatory assurance) because:

    a. As stated in your consultation document, ISSA 5000 has been designed to be framework neutral and practitioner neutral, so it can be used by a broad range of assurance practitioners, not just those from (for example) a financial background. The standard provides clear requirements and application material to support all practitioners. This negates the previous rationale for developing a New Zealand specific standard, NZ SAE 1, as an assurance option which does not exclude certain assurance providers from the market. The XRB's recent GHG assurance snapshot (September 2025) suggests there is minimal effort in aligning to one standard as the vast majority are transitioning to ISAE (NZ) 3410 and Professional Ethics Standard 1 (PES 1).

    b. For the clarity of Climate Statements users regarding the extent of assurance work performed, consistent assurance standards are necessary. In the absence of clear

Shape the future with confidence

alignment between the requirements of the ISAE (NZ) 3410 and ISO, in practice we see significant variations between the assurance procedures performed under ISAE (NZ) 3410 and ISO 14064:3-2019, as well as the presentation of the assurance statements. Adding another assurance standard option in addition to the already approved standards is likely to increase the existing inconsistency in assurance procedures and reporting. We consider ISSA (NZ) 5000 to require a greater level of assurance procedures when compared to ISAE (NZ) 3410. This reinforces the need to remove NZ SAE 1, ISAE (NZ) 3410 and ISO when ISSA (NZ) 5000 is available to all practitioners, rather than allow for any of these standards to be used. The proposed position will create a two-tiered market in terms of the level of assurance provided as well as confusion as to expectations and understanding on what assurance has been performed.

c. If ISSA (NZ) 5000 is added as an option to NZ SAE 1, in our view NZ SAE 1 will require amendments to incorporate more of the detailed requirements of ISSA (NZ) 5000 and the IESSA. Without amendment, there is potentially a significant disparity between engagements performed under ISSA (NZ) 5000, ISO and ISAE (NZ) 3410. We also believe that there will be significant differences between the ethical and independence requirements for an engagement performed under ISSA (NZ) 5000 and those performed under the other assurance options in NZ SAE 1. For example, at present there is very limited prescription in NZ SAE 1 regarding rotation. The rotation requirements of the IESSA are prescriptive. To have an assurance provider applying the strict provisions of the IESSA to the rotation on one client where ISSA (NZ) 5000 has been adopted and not on another client where another of the assurance options has been retained is not appropriate and introduces complexity within the assurance providers practice. It is unlikely that the reader will understand the different level of requirements (both in terms of procedures as well as ethics and independence) between the various standards. Any amendment to the ethical and independence requirements of NZ SAE 1 should be made in accordance with the adoption date for ISSB (NZ) 5000 and the IESSA to minimise confusion around transition periods. Misalignment with global timelines creates confusion and additional complexity to manage.

2. We do not agree that it is necessary to retain ISAE (NZ) 3410 as an assurance standard in New Zealand, nor retain NZ SAE 1. In our view, the retention of these standards will introduce confusion and a move to ISSA (NZ) 5000 in its entirety is more desirable to maintain international alignment and expectations on assurance related to sustainability topics.

3. We believe the proposed amendment to the IESSA NZ R5100.0 could be misinterpreted. The current wording could imply that for assurance engagements performed on the mandatory elements of NZ CS, the practitioner only needs to apply the independence requirements of NZ SAE 1. We understand this is not the intention. If the XRB continues with the use of NZ SAE 1 and adopts ISSA (NZ) 5000 (noting that we do not agree with this view – see point 1), we suggest additional wording to this proposed amendment as follows;

   "NZ R5100.0 A sustainability assurance practitioner shall apply the independence requirements in NZ SAE 1 as well as the requirements of this standard when conducting an assurance engagement for the disclosures within the climate statements relating to greenhouse gas emissions required by the Financial Markets Conduct Act 2013 to be the subject of an assurance engagement."

Shape the future
with confidence

Should you wish to discuss our comments further, please contact Pip Best at Pip.Best@nz.ey.com.

Yours sincerely,



Pip Best
Partner - Climate Change and Sustainability Services

KPMG Centre
18 Viaduct Harbour Ave
PO Box 1584
Auckland 1140
New Zealand
T: +64 9 367 5800

The External Reporting Board (XRB)

Via email: climate@xrb.govt.nz

9 October 2025

Alignment with international standards

Sustainability Assurance, Ethics and Independence, and Using the work of an External Expert

As a leading professional services firm, KPMG New Zealand (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise, but also employees, governments, regulators – and the wider community. KPMG welcomes the opportunity to respond to the External Reporting Board (XRB)'s Consultation Paper on Alignment with international standards - Sustainability Assurance, Ethics and Independence, and Using the work of an External Expert.

Assurance plays an important role in enhancing the credibility of climate disclosures and KPMG strongly supports the adoption of globally consistent disclosure of sustainability-related financial information and alignment with international standards.

Overall comments:

The consultation paper is seeking feedback on proposals to adopt international standards with New Zealand changes. Overall, we support the adoption of ISSA (New Zealand) 5000 *General Requirements for Sustainability Assurance Engagements* (ISSA (NZ) 5000), International Ethics Standard for Sustainability Assurance (including International Independence Standards) (New Zealand) (IESSA (NZ)) and the *Revisions to the Code Addressing Using the Work of an External Expert.*

Below we provide our responses to the specific questions.

© 2025 KPMG, a New Zealand partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Specific questions raised as part of the consultation:

Issue ISSA (NZ) 5000

Q1: Do you agree with the proposal to adopt ISSA (NZ) 5000 in New Zealand?

Yes. We acknowledge the existing standards and guidance that ISSA (NZ) 5000 draws on as well as the proposals in ISSA (NZ) 5000 expanding on those standards and guidance and we consider ISSA (NZ) 5000 to be relevant for current day sustainability assurance engagements. We also understand that ISSA 5000 was designed to be applicable for all practitioners providing assurance.

Q2: Is your firm intending to transition to ISSA (NZ) 5000 for sustainability assurance engagements? If yes, when?

Yes – KPMG adopts KPMG Global methodology which is currently based on ISSA 5000 exposures drafts. Some methodology changes are still to be implemented to become fully compliant with ISSA 5000, but these will be ready for periods beginning on or after 15 December 2026.

Q3: Do you agree with the proposed New Zealand changes to ISSA (NZ) 5000:

a) To clarify the scope

We agree with the scope of ISSA (NZ) 5000 being available:

- as an option for the mandatory assurance of GHG emissions disclosures within our NZ SAE 1 – however, please see our comments below for question 13;
- for voluntary assurance over other information included in the climate statements; and
- for voluntary assurance over other reported sustainability information.

We also agree that any references to listed entities in ISSA 5000 should be amended in ISSA (NZ) 5000 to refer to FMC entities considered to have a higher level of public accounting, for consistency with our other existing New Zealand assurance standards.

b) To address the existence of relationships that the assurance practitioner may have?

We agree that the assurance practitioner's report should include a statement as to the existence of any relationship that the assurance practitioner has with, or any interests that the assurance practitioner has in, the entity or any of its subsidiaries

Are there any other matters that you recommend that the XRB add to ISSA (NZ) 5000?

We have no other recommendations. In KPMG's experience assisting multinational companies, having New Zealand specific assurance standard requirements in addition to the international equivalent may result in a higher compliance burden. This added workflow may contribute to cost and complexity. As such, we are also supportive of the New Zealand changes remaining limited.

Issue IESSA (NZ)

Q4: Do you agree with the proposal to adopt the IESSA (NZ) in New Zealand?

Yes. We recognise the need for an ethics and independence standard when providing sustainability assurance engagements and agree that adopting the IESSA (NZ) in New Zealand is responsive to the public interest in these engagements.

Q5: Is your firm intending to transition to the IESSA (NZ) for sustainability assurance engagements? If yes, when?

Yes – KPMG will transition to the IESSA (NZ) for sustainability assurance engagements. The transition will be effective for periods beginning on or after 15 December 2026.

Q6: Do you agree with the proposed New Zealand changes to IESSA (NZ):

a) To clarify the scope

We agree with the scope of New Zealand amendments to include:

- application material to advise practitioners to seek legal advice when disclosing confidential information
- amendments relating to the disclosure of safeguards (and service as a director or officer)
- amendments relating to a prohibition for an assurance practitioner to accept or pay referral fees
- a requirement, when an assurance practitioner identifies multiple threats to independence, which individually may not be significant, to evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level
- additional application material regarding the provision of tax advisory planning and advisory services

b) To replicate amendments in PES 1? Are there any other matters that you recommend the XRB add to IESSA (NZ)?

Yes. We agree to replicate amendments that have been made to PES 1 for audits and reviews of financial statements that are equally relevant to sustainability assurance.

Issue Revisions to the Code Addressing Using the Work of an External Expert applicable to all assurance engagements

Q7: Do you agree with the proposal to adopt the Revisions to the Code Addressing Using the Work of an External Expert in New Zealand?

Yes. We agree with the new concepts planned for inclusions in sections 290, 390 and 5390 to create a global baseline and address heightened shareholder expectations.

Q8: Are there any New Zealand changes that you recommend the XRB add to the standard Addressing Using the Work of an External Expert?

No. We have no other recommendations.

Amend NZ SAE 1

Q9: Do you support adding a third option to NZ SAE 1 to enable assurance practitioners to apply ISSA (NZ) 5000 for mandatory GHG assurance engagements?

Whilst we support adding ISSA (NZ) 5000, making this a third option becomes even more confusing for users. As NZ SAE 1 is built on guiding principles applicable to all assurance practitioners, this already results in practitioners applying different underlying assurance standards and ethical and quality management standards to assure the same subject matters which can be confusing to the intended users of the assurance report. As per our response to Q11 below, we do not agree that the XRB should defer any decision to withdraw ISAE (NZ) 3410 and rather, that ISSA (NZ) 5000 should replace the use of ISAE (NZ) 3410.

Q10: Do you support the proposed conditional requirement for one-to-many reports being added to NZ SAE 1?

Yes – we believe adding this requirement would help consistency across assurance practitioners using service organisation and controls reports.

Q11: Do you agree that the XRB should defer any decision to withdraw ISAE (NZ) 3410 to a later date?

No – We believe ISSA (NZ) 5000 promotes international best practice and should be used in place of ISAE (NZ) 3410. We understand from the XRB's deep dive session that ISAE (NZ) 3410 is proposed to be retained due to ISSA (NZ) 5000 having a wider scope than just GHG emissions. However, we are comfortable that ISSA (NZ) 5000 draws from and builds on ISAE (NZ) 3410 and is suitable for GHG emissions assurance engagements.

Applicable date of all standards

Q12: Do you agree with the proposed application date for assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026? The proposal is to align with the effective dates of the international standards.

Yes.

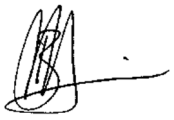
Other Q13: Do you have any further comments?

We consider that the XRB needs to be clear on its intention and timeline to revoke NZ SAE 1, now that the international sustainability assurance standards have been developed, given NZ SAE 1 was only ever intended to be a temporary assurance standard. Whilst we acknowledge that NZ SAE 1 has some specific NZ provisions including Key Matters, we do not believe this

should be a constraint to retiring the standard, as we note there is already mixed practice in the market relation to the inclusion of Key Matters.

We once again would like to thank you for the opportunity to provide a submission on this consultation document. Please do not hesitate to contact Brent Manning on bwmanning@kpmg.co.nz should you wish to discuss our submission further.

Yours sincerely



Brent Manning
National Managing Partner - Audit

McGuinness Institute Submission

External Reporting Board (XRB)

Alignment with international standards: sustainability assurance, ethics and independence and using the work of an external expert

10 October 2025

1.0 Introduction

The McGuinness Institute (the Institute) welcomes the opportunity to submit on the below proposals to align New Zealand's standards with international standards (the proposals).

This consultation includes exposure drafts on:

1. ED International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements for Sustainability Assurance Engagements (ISSA (NZ) 5000)
2. ED International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand) (IESSA (NZ))
3. ED Other Revisions to the Code Relating to Sustainability Assurance and Reporting
4. ED Revisions to the Code Addressing Using the Work an External Expert
5. ED Amendments to Assurance Engagements over Greenhouse Gas Emissions Disclosures 2025.

We would like to thank the External Reporting Board (XRB) for inviting feedback on this important topic.

Sustainability reporting is a rapidly evolving field that encompasses multiple dimensions, making it inherently complex. The old adage that 'we manage what we measure' remains as relevant as ever. To be responsible stewards of our nation, we must begin by assessing our impact and then commit to improving outcomes for both present and future generations.

We acknowledge that directors, reporters and auditors may feel nervous about reporting data that they have low confidence in. This is an area that is developing fast. However, this makes it increasingly important that New Zealand develops a trustworthy reporting framework with quality assurance standards. Investors, the community and other stakeholders need useful information to navigate the challenges we face, especially as we try to mitigate and adapt to climate change.

A summary of the Institute's key recommendations can be found in Section 5.0 Conclusion.

Please do not hesitate to contact us if you have any further questions on the following ideas.

1.1 About the McGuinness Institute

The Institute was founded in 2004 as a non-partisan think tank working towards a sustainable future for Aotearoa New Zealand. Project 2058 is the Institute's flagship project focusing on Aotearoa New Zealand's long-term future. Our observation that foresight drives strategy, strategy requires reporting, and reporting shapes foresight, led the Institute to develop three interlinking policy projects: *ForesightNZ, StrategyNZ* and *ReportingNZ*. All three of these must align if we want Aotearoa New Zealand to develop durable, robust and forward-looking public policies.

The policy projects frame and feed into our research projects, which address a range of significant issues facing Aotearoa New Zealand. The 13 research projects include: *BiodiversityNZ, CivicsNZ, ClimateChangeNZ, ForesightNZ, OneOceanNZ, PandemicNZ, PublicScienceNZ, ReportingNZ, SecurityNZ, StrategyNZ, TacklingPovertyNZ, TalentNZ and WaterFuturesNZ*.

1.2 Relevant research by the Institute

For more detailed research the Institute has undertaken in this area, we recommend you read the following three working papers. They analyze how annual reports of NZSX-listed companies report on Non-GAAP Financial Information, climate statements, and carbon offsets:

1. ***Working Paper 2025/05 – Reviewing Non-GAAP Financial Information in Annual Reports and Market Announcements of NZSX-listed Companies*** (in press)[1]
   This paper examines and identifies the extent to which non-GAAP information is currently being presented in annual reports, and in some cases financial statements and NZX announcements. The relevance of this paper is that reporters are currently preparing a lot of additional information outside of GAAP that is not required by the XRB. They are doing this voluntarily and at considerable cost, without common terms that enable investors and other stakeholders to compare companies.

2. ***Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies***[2]
   This paper examines some aspects of recently published climate statements. It aims to contribute to research on how New Zealand might better report and manage climate risks and maximise opportunities in the transition to a low-carbon economy. It provides a quantitative assessment of the state of climate reporting in New Zealand through the lens of NZSX-listed companies that have published annual reports that mention NZ CS. This paper shows that scope 3 information can be prepared and is significant in terms of scale, and is therefore useful.

3. ***Working Paper 2025/07 – Analysing Carbon Offset Information Disclosed in 2021–2024 Annual Reports of NZSX-listed Companies*** (in press)[3]
   This paper examines and identifies the extent to which carbon offset information has been disclosed in the 2021–2024 annual reports of NZSX-listed companies. This paper demonstrates that the reporting of carbon offset information is a form of Anticipated Financial Impacts (AFIs). It suggests that more detailed reporting is needed to incentivise investment and ensure the most effective approach to carbon offsetting, and climate change mitigation as a whole, is adopted.

2.0 Level of climate change is unprecedented

The intensifying global transition toward low-emission technologies, as well as increases in defence spending, are driving a substantial increase in demand for critical minerals such as lithium, cobalt, and rare earth elements. This surge is resulting in both supply-chain vulnerabilities and pricing volatility, with implications for industries reliant on clean energy infrastructure. Simultaneously, the growing frequency and severity of climate-related events are contributing to population displacement and heightened immigration pressures.

Recent examples of extreme climate impacts include:

- 'In July [2025], Pakistan saw record-breaking heat, with temperatures in Chilas, in the mountains, 48.5C, which may have contributed to the flooding that followed.'[4]
- 'Extreme wildfire activity has more than doubled worldwide [in the last 21 years].'[5] These wildfires have had severe consequences for air quality, biodiversity and human health, and they continue to shape global discussions on climate resilience and emergency preparedness.
- 'More than 32,000 people have died trying to reach Europe in the past 10 years – including 1,300 dead or missing this year.'[6]
- 'Cyclone Gabrielle in 2023 and the Auckland Anniversary floods caused an estimated $14.5 billion in damage, of which insurers paid $3.8 billion in claims … global insured losses from natural catastrophes in 2025 are likely to surpass $100 billion for the seventh straight year … The largest single loss to date is the Los Angeles wildfire, with insured losses of more than $40 billion'.[7]

These shifts are straining local systems and amplifying demand for essential resources, including food and water, especially in regions already facing environmental stress.

With this context, it is unsurprising that the September 2025 *Mood of the Boardroom* survey revealed that 78% of chief executives in New Zealand report that their boards regularly assess geopolitical vulnerabilities as part of their risk matrix.[8] This reflects a growing recognition that global instability, from trade tensions and resource competition to climate-induced migration, is creating significant challenges for businesses. For this reason, the Institute considers all sustainability factors (including those that are difficult to report on) must be included in sustainability reporting in New Zealand. This information should be assured, trustworthy, and compliant with international standards. We cannot afford to ignore risks on the basis that they are too hard to quantify.

Below, we answer each of the consultation's specific questions in detail.

3.0 Specific questions

Please refer below to see the Institute's response to each of the specific questions on page 5 of *XRB consultation: International alignment* (the proposal document).

This section is divided into six parts:

A: Issue International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements for Sustainability Assurance Engagements (ISSA (NZ) 5000)

B: Issue International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand) (IESSA (NZ))

C: Issue *Revisions to the Code Addressing Using the Work an External Expert* applicable to all assurance engagements

D: Amend New Zealand Standard on Assurance Engagements 1 (NZ SAE 1)

G: Retain International Standard on Assurance Engagements (New Zealand) 3410 (ISAE (NZ) 3410)

H: Applicable date of all standards

A: International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements for Sustainability Assurance Engagements (ISSA (NZ) 5000)

Q1: Do you agree with the proposal to adopt ISSA (NZ) 5000 in New Zealand?

Although sustainability is a complex area of reporting, there is urgency to develop and implement consistent climate assurance standards. The International Standard on Sustainability Assurance (ISSA 5000) is a globally endorsed sustainability standard. The ISSA 5000 'sets a global baseline for high-quality, consistent sustainability assurance for all practitioners. Effective December 15, 2026, with early adoption encouraged, ISSA 5000 applies to both mandatory and voluntary assurance engagements. It aims to reduce fragmentation and enhance trust in sustainability reporting."[9]

The consultation paper (p.8) clarifies how ISSA (NZ) 5000 will fit into the current framework:

> 'The XRB proposes to issue ISSA (NZ) 5000, based on ISSA 5000. We propose that assurance practitioners may use ISSA (NZ) 5000 for sustainability assurance engagements including:
> - **as an option for the mandatory assurance** of GHG emissions disclosures within our temporary standard, NZ SAE 1 (refer to section on Amend NZ SAE 1)
> - **for voluntary assurance** over other information included in the climate statements
> - **for voluntary assurance** over other reported sustainability information.' [bold added]

The Institute notes that sustainability information includes various elements which are difficult to quantify. This makes it very different to financial reporting, and thus makes designing assurance standards complex. This is reflected in the extract from p.8 of the ED ISSA 5000 below:

> '**For purposes of this ISSA (NZ), sustainability information is information about sustainability matters. An entity's disclosures about such matters may relate to several different topics (e.g., climate, labour practices, biodiversity) and aspects of topics (e.g., risks and opportunities, metrics and key performance indicators).** Law or regulation or sustainability reporting frameworks may describe sustainability matters, topics or aspects of topics in different ways, and may also provide requirements or guidance for the entity in determining the sustainability information to be reported.'[10] [bold added]

The Institute notes ISSA (NZ) 5000 is *optional* rather than *mandatory*. Though this enables flexibility, allowing for multiple frameworks (i.e. both NZ SEA 1, ISAE 3410 or ISSA (NZ) 5000) does cause inconsistency across assurance quality and may lead to confusion for both preparers and users of information. For reporting to be useful, the information should be accurate and consistent.

The Institute's concern is that too many options are being promoted at once. If we want to make New Zealand business climate-ready, having a consistent approach to assurance is good not just for preparers, but also for users and assurers.

Although we are suggesting ISSA (NZ) 5000 should be the only mandatory standard, we acknowledge that any one of the three standards may work. Our recommendation is that there should only be one standard that is being mandated by XRB (the other two should act as a guide to reporters, assurers and users).

Please note, the Institute have not completed a detailed analysis of content of each of the three standards being proposed (see below), but for the purposes of this submission we have suggested ISSA (NZ) 5000. For a definitive recommendation, more research would need to be undertaken and the Institute did not have the time or resources to undertake a detailed assessment of which one was best.

Page 12 of the consultation paper demonstrates the potential confusion created by allowing three possible options:

> 'Shall comply with either ISO 14064-3: 2019 Greenhouse gases — Part 3: Specification with guidance for the verification and validation of greenhouse gas statements **or** ISAE (NZ) 3410 Assurance Engagements on Greenhouse Gas Statement **or** ISSA (NZ) 5000 General Requirements for Sustainability Assurance Engagements' [bold added].

The Institute recommends:

1. that CREs obligated to provide assurance for their climate statements should be mandatorily required to adopt ISSA (NZ) 5000. If CRE's wish to seek additional guidance, we suggest they read ISO 14064-3 and ISAE (NZ) 3410.

2. companies that report on greenhouse gases in their annual report should be mandatorily required to apply ISSA (NZ) 5000.

3. a clear timeline, support and tailored guidance should be provided for phasing out the older standards. This will improve accountability, usability and public trust in sustainability reporting.

Q2: Is your firm intending to transition to ISSA (NZ) 5000 for sustainability assurance engagements? If yes, when?

N/A

Q3: Do you agree with the proposed New Zealand changes to ISSA (NZ) 5000:

a) To clarify the scope

b) To address the existence of relationships that the assurance practitioner may have?

Are there any other matters that you recommend that the XRB add to ISSA (NZ) 5000?

N/A

B: International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand) (IESSA (NZ))

Q4: Do you agree with the proposal to adopt the IESSA (NZ) in New Zealand?

The International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) are designed to 'establish a strong ethical foundation for sustainability reporting and assurance engagements.'[11]

The benefits of incorporating IESSA (NZ) include:

- Compliance with international standards, improving comparability across countries (it especially relevant to consider that the IESSA (NZ) will be consistent with Australia, due to the number of Trans-Tasman businesses).
- Increased trust in New Zealand's sustainability reporting, especially from international parties.
- Improved usability and trust from international stakeholders and investors.
- Standards that reflect challenges in reporting sustainability (e.g. tensions arising from short term/long term approaches, high level/low level confidence in the data or the needs of primary/secondary users).
- Mitigating unethical and 'greenwashing' conduct (including helping with issues of non-compliance with laws and regulations (NOCLAR), issues with independence and unethical behaviour, and ethical concerns from working with external experts). [12]

However, the IESSA (NZ) is designed like traditional financial reporting frameworks. It is important to note that sustainability information is fundamentally different to financial information in a number of ways. There are elements of sustainability that are therefore missed under IESSA (NZ), such as biodiversity or community impacts, which are less easily quantified.

The Institute recommends:

1. IESSA (NZ) is adopted, however, we note that some complexities of sustainability reporting should be considered.

Q5: Is your firm intending to transition to the IESSA (NZ) for sustainability assurance engagements? If yes, when?

N/A

Q6: Do you agree with the proposed New Zealand changes to IESSA (NZ):

a) To clarify the scope

b) To replicate amendments in PES 1?

Are there any other matters that you recommend the XRB add to IESSA (NZ)?

N/A

C: *Revisions to the Code Addressing Using the Work an External Expert* applicable to all assurance engagements

Q7: Do you agree with the proposal to adopt the Revisions to the Code Addressing Using the Work of an External Expert in New Zealand?

Assurance providers in New Zealand's sustainability reporting will require non-accounting experts (e.g. climate scientists), as this kind of reporting requires different skills and education to traditional accounting. Allowing external experts is therefore important. However, objectivity standards must remain high so that sustainability information is trustworthy.

The Institute notes the importance of maintaining trust in sustainability reporting, as noted in *Comments on recent International Ethics Standards Board for Accountants Exposure Drafts regarding sustainability assurance and the use of external experts:*

> 'We begin by commending the IESBA for their work on revising the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) as it relates to the use of external experts by professional accountants (PAs) and sustainability assurance practitioners (SAPs). **Given the increasing breadth of PAs' and SAPs' work, there is an increasing need to draw on the work of experts (e.g. Boritz et al., 2020) and an increasing possibility that inappropriate reliance on that work by the PA or SAP may threaten the PA's or SAP's compliance with the fundamental principles of the Code. Appropriate evaluation of the work of the external expert helps to minimise that threat.** Overall, we believe that the proposals, when considered collectively, will enhance the PA's and SAP's evaluation of an external expert's work, but that there remain opportunities for the IESBA to make further improvements to the Code in this area.' [13]

The Institute recommends:

1. work of external experts should be accepted, but it requires detailed regulations, definitions and guidance (detailed in the response to Q8 below). If information provided by external experts is not held to high standards, sustainability reporting may be seen as inconsistent and thus lose public trust and usability. Maintaining credibility of the use of external experts is critical to ensure the information produced is accurate and will have an impact.

Q8: Are there any New Zealand changes that you recommend the XRB add to the standard Addressing Using the Work of an External Expert?

As discussed in the response to Q7 above, the Institute acknowledges that the use of external experts will require clear definitions and guidance, including specific disclosure on their credentials and experience, as well as any (real or perceived) conflicts of interest.

The Institute refers to *Comments on recent International Ethics Standards Board for Accountants Exposure Drafts regarding sustainability assurance and the use of external experts:*

> '**There is a need for assurance over sustainability information, and for that assurance to be provided by professional people who have the appropriate guidance on ethical issues.** There is an increasing need to draw on the work of experts and an increasing possibility that inappropriate reliance on that work by professional

> accountants and sustainability assurance practitioners may threaten compliance with the fundamental principles of the code of ethics.'[14] [bold added]

This definition for assurance practitioners should also include requirements to disclose non-compliance with laws and regulations. This point is discussed in more detail in *Comments on recent International Ethics Standards Board for Accountants Exposure Drafts regarding sustainability assurance and the use of external experts:*

> '**We recommend that where a sustainability assurance practitioner, or a senior professional accountant in business, is aware of non-compliance with laws and regulations (NOCLAR), there should be a requirement to disclose it to multiple sustainability practitioners where these exist.** We have made comments about the disclosure of fees for sustainability services (question 17), because we consider that the mechanism for disclosure is not currently made clear in the Exposure Draft.'[15] [bold added]

For sustainability reporting to be useful, it is critical that sustainability reporting aims to complement financial reporting. This means that although the processes and goals are aligned, the topics and in some cases the level of confidence in the data or the completeness of the data may not be of a comparable standard. However, this is to be expected given the pace and types of changes that businesses are currently facing.

The Institute recommends:

1. clear definitions should be implemented to define what is required for someone to be considered an 'expert' in their area of reporting and assurance. Good sustainability reporting should reinforce a company's social licence to operate and deliver better long term outcomes for the company and the community it serves (e.g. suppliers, staff etc).

D: New Zealand Standard on Assurance Engagements 1 (NZ SAE 1)

Q9: Do you support adding a third option to NZ SAE 1 to enable assurance practitioners to apply ISSA (NZ) 5000 for mandatory GHG assurance engagements?

The consultation paper (p.9) emphasizes the broad scope of ISSA 5000:

> '**The scope of ISSA 5000 is intentionally broad and covers all sustainability information including GHG.** However, in New Zealand, NZ SAE 1 is the applicable standard for mandatory assurance over GHG emission disclosures in the climate statements of CREs. For clarity, we propose including the following New Zealand-specific paragraph in ISSA (NZ) 5000 to refer to NZ SAE 1 for the purposes of mandatory assurance:
>
> > *NZ 8A The practitioner shall apply New Zealand Standard on Assurance Engagements 1 when conducting an assurance engagement for the disclosures within the climate statements relating to Greenhouse Gas emissions required by the Financial Markets Conduct Act 2013 to be the subject of an assurance engagement.*'

It is noted that the addition of ISSA (NZ) 5000 is the third option to this reporting framework and will be *optional* rather than *mandatory*. As noted above, allowing for a number of different options causes confusion for users and preparers of sustainability information. A single mandatory option would help improve clarity in this developing area.

The consultation paper (p.12) states:

> '**The XRB does not propose to mandate the use of ISSA (NZ) 5000 for GHG emissions assurance.** Rather, we propose to make ISSA (NZ) 5000 **available for use as an option** alongside ISAE (NZ) 3410 or ISO 14064:3-20199 to assure GHG emissions disclosures within our temporary standard.' [bold added]

The Institute notes that some benefits of incorporating ISSA (NZ) 5000 include:

- Ensures New Zealand is compliant with international standards in assurance, maintaining international trust in New Zealand's reporting.
- Allows international stakeholders to compare and trust New Zealand sustainability reporting.
- Addresses important reporting areas such as forward-looking estimates, value chain emissions (scope 3) and non-financial and narrative disclosures. These elements are critical for greenhouse gas reporting assurance.
- Strengthens transparency of greenhouse gas emissions reporting, supporting stakeholder confidence.
- Implements a stronger assurance regime, which will help prevent 'greenwashing' and 'cherry-picking' sustainability reporting.

The Institute recommends:

1. the addition of ISSA (NZ) 5000, however our view is that it should be mandated as a primary standard rather than an optional standard.
2. a clear timeline for implementation should be put in place to provide certainty for preparers, users and assurance providers.

Q10: Do you support the proposed conditional requirement for one-to-many reports being added to NZ SAE 1?

A major opportunity exists for New Zealand to use the disclosure and assurance of climate statements to provide national and international confidence in the country's reduction of domestically generated emissions.

New Zealand's first Biennial Transparency Report (BTR1) was published on 18 December 2024. It outlines progress made towards New Zealand's first NDC (NDC1), and how New Zealand will meet its emissions reduction and climate finance targets.[16] Projections in BTR1 note that the abatement gap to achieving NDC1 is 89.2 Mt CO_2e (not including the impact of policies and updated data included in the Government's second emissions reduction plan).[17]

The Institute notes that New Zealand's second NDC (NDC2) was submitted in January 2025 and has an emissions reduction level of 51–55% below gross 2005 levels by 2035 (compared to 50% below gross 2005 levels by 2030 in NDC1).[18]

The availability of evidence regarding work that domestic entities have undertaken to reduce domestic emissions may create an opportunity: New Zealand may find it needs to purchase fewer offshore carbon credits to meet emissions reductions declared under the Paris Agreement. A lack of this evidence will only hinder the country's chances to reduce these costs. It will also increase uncertainty, making it more difficult to produce effective, applicable and cost-efficient long-term plans and strategies around climate change.

Scope 3 emissions make up the largest proportion of total emissions for many companies. The Carbon Disclosure Project (CDP) reported in 2024 that the scope 3 emissions of the 19,000 companies that disclosed through them were on average 26 times higher than scope 1 and 2 emissions.[19] Therefore, delaying disclosure and assurance of these emissions is particularly problematic.

The Institute recently published *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies.*[20] This paper examines some aspects of recently published climate statements. The relevance of this paper is that it shows that scope 3 information can be prepared and is significant in terms of scale, and is therefore useful. This paper also found Companies have already demonstrated the ability to report scope 3 emissions.

See the figures and tables in Appendix 1 below:

- Table A1.1: Six early adopters that chose to fully report against NZ CS in FY23 annual reports
- Table A1.2: Six early adopters' GHG emissions (disclosed in FY23 annual reports)
- Figure A1.3: Six early adopters' GHG emissions (disclosed in FY23 annual reports).

It is also relevant to refer to the consultation paper (p.13):

> '**Value chain considerations are especially relevant to scope 3 GHG emission disclosures which are subject to mandatory assurance in New Zealand.** During our recent consultation on amendments to the climate standards, the use of service

organisation and controls reports was highlighted by practitioners for third party data providers. ISSA 5000 includes requirements and considerations for one-to-many reports (refer Appendix B for details) if the practitioner plans to use an assurance report of another practitioner that has been designed for use by user entities. NZ SAE 1 includes high-level principles for the use of the work of others (refer para. 26). Two of these requirements state that, if the assurance practitioner intends to use the work of others, they shall:

- agree the nature, scope and objectives of their work
- evaluate the adequacy of the work performed for their purposes.

We are interested to understand how practitioners are dealing with scope 3 GHG assurance and whether further changes are needed within our temporary standard. We are exploring adding a requirement for one-to-many reports within NZ SAE 1 to drive consistency across practitioners, noting that any such requirement would not be applicable until periods commencing on or after 15 December 2026.' [bold added]

A key purpose of sustainability reporting is to help investors, and the wider public, make educated decisions on companies and their impacts on the climate. It is therefore essential that sustainability reporting is trusted by the public, and that this information is accessible.

In the short term, flexibility should be offered around the accuracy and reliability of scope 3 emissions, rather than the timeframe, as the latter provides no incentive for CREs (and assurers) to start developing the skills, processes and structures required to disclose. Additionally, for the government to design effective and deliverable climate strategies and assess the need for offshore carbon credits, an estimation is far more helpful than no information at all. Therefore, the Institute also recommends that Parliament passes legislation that provides safe harbour provisions for directors in relation to scope 3 emissions information.

The Institute recommends:

1. making 'one-to-many' assurance reports publicly available will benefit New Zealand by building trust in sustainability information. If this approach is to progress, we consider there needs to be a high level of transparency, with experts stating the purpose, who paid for the report and over what time frames the report has been prepared.
2. rather than delay the reporting and assurance of scope 3 GHG emissions, the XRB accept that preparers may only be able to report scope 3 emissions with a low level of confidence for say the next three years. This recommendation is explained in more detail in *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies.* [21]

E: International Standard on Assurance Engagements (New Zealand) 3410 (ISAE (NZ) 3410)

Q11: Do you agree that the XRB should defer any decision to withdraw ISAE (NZ) 3410 to a later date?

The consultation paper (pp.13–14) notes that, although ISSA 5000 will be the international standard, the XRB intends to retain ISAE (NZ) 3410:

> '**Internationally ISSA 5000 will replace ISAE 3410 for periods beginning on or after 15 December 2026. Thereafter, ISAE 3410 will not be maintained internationally, and assurance practitioners will not be able to assert compliance with international standards if referencing ISAE 3410.**
>
> The **XRB currently intends to retain ISAE (NZ) 3410 as an XRB standard. We also intend to retain ISAE (NZ) 3410 as an option** within NZ SAE 1. ISAE (NZ) 3410 is specific to GHG emissions, which is the scope of the mandatory assurance required for climate statements… We will continue to monitor GHG assurance reports in the New Zealand market and will engage on the value of retaining ISAE (NZ) 3410 once more information is available.'

The ISAE 3410 was designed to deal with 'assurance engagements to report on an entity's Greenhouse Gas statement.'[22] However, it is an old standard that is arguably no longer fit for purpose.

Key concerns with ISAE 3410 include:

- It was designed over a decade ago (compiled in June 2010 and issued in December 2012).[23]
- It has a narrow focus on assurance of greenhouse gas emissions (and does not consider other sustainability factors such as forward-looking disclosures).
- It does not consider the importance of reporting on scope 3 emissions. As noted above in the response to Q10, these emissions are significant:
    - Scope 3 emissions make up the largest proportion of total emissions for many companies.
    - CDP reported in 2024 that the scope 3 emissions of the 19,000 companies that disclosed through them were on average 26 times higher than scope 1 and 2 emissions.[24]
    - Delaying disclosure and assurance of these emissions is particularly problematic.
- It is potentially inconsistent with international standards (i.e. ISSA 5000). This reduces trust and international comparability.
- Its reliance on outdated frameworks allows for the risks of 'greenwashing' and may also dilute accountability and public trust in sustainability reporting.

The climate is changing fast and we need to implement changes now. New Zealand's climate reporting regime should be designed to improve certainty for preparers, help users understand sustainability information, and drive real emissions reduction.

Deferring the withdrawal decision is delaying the opportunity to improve New Zealand's sustainability reporting and to uphold international standards. See the response to Q12 below for

a more detailed list of reasons why a delayed sustainability reporting timeline is not recommended.

The Institute recommends:

1. the decision to withdraw ISAE (NZ) 3410 is not delayed to a later date. Instead, the Institute recommends the XRB should define a clear transition period (including targeted guidance and training) to phase out ISAE (NZ) 3410 and replace it with ISSA 5000. Further delaying this transition undermines supporting New Zealand's long-term climate goals.

F: Applicable date of all standards

Q12: Do you agree with the proposed application date for assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026? The proposal is to align with the effective dates of the international standards.

The Consultation paper (p.14) notes that:

> 'The XRB proposes to **align with the application dates of the international standards**, i.e. applicable for assurance engagements on sustainability information reported for periods beginning on or after **15 December 2026.** The XRB proposes to allow, but not require, early adoption.' [bold added]

Though early adoption is allowed, the proposed application date of 15 December 2026 does allow for a significant lead time. Companies should already be collecting and verifying climate information, as climate-related disclosures are already mandatory under New Zealand's Climate-related disclosures (CRD) regime. Delaying disclosure requirements any further than December 2026 will further slow progress, not enable it.

The results from the Institute's *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies* show that 95% (80 out of 84) of FY24 climate statements applied the adoption provisions provided to CREs under NZ CS 2 (with a total of 417 adoption provisions applied throughout the 80 FY24 statements) (see Appendix 1, Figure A1.2 from *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies*). Evidently, the vast majority of companies apply adoption provisions when given the opportunity and are far less inclined to disclose information if they are not required to. Providing further relief to companies will only further delay crucial action.

We have an opportunity as a small developed country to be a world-leader in climate reporting. 'New Zealand should continue to work hard to lead in this space. It is difficult for small countries to be seen and heard, but our actions to create mandatory climate reporting were acknowledged globally as world leading. Delaying assurance at this stage of the process is a step back from our current leadership role.'[25]

What we don't measure, we cannot manage. Delaying a robust, clear and user-friendly assurance standard and reporting framework system will mean company climate information cannot be verified, compared and used. Implementing robust assurance *now* will mean early climate disclosures can be verified and managed, improving the usability of information for stakeholders.

There are a number of other reasons a delayed implementation timeline is not recommended:

1. The effects of climate change are accelerating (see Section 2.0 discussion above).
2. The fact that information may be difficult or costly to prepare is not a valid reason to exclude it from reporting. Many disclosures (e.g. fair value estimates, contingent liabilities, notes to the accounts) are complex and resource-intensive, yet are required information because they lead to better decision-making. See, for example, our *Discussion Paper 2024/01 – Risks Hiding in Plain Sight: Does a commitment under the Paris Agreement to purchase offshore carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government?*[26]

3. The purpose of reporting focuses on the needs of 'primary users' to assess information on risk, value and strategy – not report preparers. The *New Zealand Conceptual Framework* states: 'Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the **primary users** to whom general purpose financial reports are directed'[27] [bold added]. Hence, if the information is useful to **primary users,** even if hard to produce, it should be in the report.
4. Complexity and cost often decline over time as companies develop systems, share best practices, and adopt technology. Avoiding disclosure delays this progress and leaves markets in the dark.
5. Delaying disclosures in pursuit of perfect accuracy risks missing critical windows for mitigation and adaptation. Even imperfect data can guide capital allocation, risk management and strategic decision-making.
6. Imperfect information today is going to be more useful for investors and other stakeholders than accurate information in four to five years' time.
7. Many companies are already producing financial information that is not comparable with other companies (e.g. non-GAAP measures), suggesting that comparability is not a prerequisite for usefulness.
8. Results from *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies* show that 95% of climate statements were categorised as partial disclosures by the Institute.[28] However, 5% full disclosure is good given the level of work involved for preparers, and noting it will get easier. Further, it was interesting to see that 3% of non-CRE NZSX-listed entities were considering reporting, not because they had to, but because they could see it delivered benefits. See Figure A1.1: Types of NZ CS disclosures made in FY24 annual reports by CREs compared with non-CREs.

The Institute recommends:

1. the December 2026 implementation date is maintained. As discussed above, climate change is urgent and any further delays will undermine climate action accountability.

Other

Q13: Do you have any further comments?

Refer to 4.0 below for further comments and recommendations.

4.0 Further Institute recommendations

1. Consider integration in the broader external reporting framework

Any reforms should support the wider NZ external reporting regime (financial reporting, non-financial, risk, governance). The importance of ensuring New Zealand's reporting framework is designed for alignment is discussed in detail in the Institute's *Report 17: Building a Reporting Framework Fit for Purpose.*[29]

You can view a relevant excerpt from the recommendations in *Report 17* in Appendix 2: Extract from Report 17.

2. Reflect user needs and decision usefulness

Reporting and assurance standards should be considered in terms of information infrastructure. It is important to consider how reports serve a variety of users of this information (investors, regulators, the public). Users should be able to trust and rely on climate reporting as they can rely on financial and other assured information.

As noted above, the purpose of reporting focuses on the needs of 'primary users' to assess information on risk, value and strategy – not report preparers. The *New Zealand Conceptual Framework* states: 'Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the **primary users** to whom general purpose financial reports are directed'[30] [bold added].

Hence, if the information is useful to **primary users,** even if hard to produce, it should be in the report. It is also important to consider other users, beyond traditional shareholders, who will use sustainability information (e.g. local communities, iwi/Māori, etc.). Assurance needs to consider how these wider users will rely on climate reporting information.

3. Monitor, evaluate, and require regular feedback loops to ensure reporting remains fit for purpose

It is recommended that the FMA commit to periodic reviews of how the new assurance regime is working. This should include monitoring of uptake, quality, costs, usability, unintended consequences, and other factors that impact the reporting. This area of reporting is changing fast and it is critical to develop a feedback mechanism to adjust reporting when required.

There is clearly a role for the XRB as standard setter to be working hard to ensure their standards are cost-effective and useful, hence both FMA and XRB have an interest in ensuring business is not unnecessarily overladen with costs and that users get the information they need to make decisions. This requires a balancing act and frequent reviews of new standards to ensure they are optimised for all concerned.

4. Where possible, minimize voluntary assurance as it is unregulated and unclear

The consultation continues to enable voluntary assurance of sustainability information, and there are various frameworks that can be used.

This means companies are likely to only report information that a) is easy to report and verify and b) makes their sustainability and climate impacts look 'good'. The more important, yet difficult to report or less flattering information may be missed.

For sustainability reporting to be useful, it should reflect the full picture of a company's impacts. Consistency of standards will help both preparers and users of reports by helping improve public trust.

5. Implement change now to reflect the changing climate

Delaying disclosures in pursuit of perfect accuracy risks missing critical windows for mitigation and adaptation. Even imperfect data can guide capital allocation, risk management and strategic decision-making.

Imperfect information today is going to be more useful for investors and other stakeholders than accurate information in four to five years' time.

6. Rather than delaying disclosure requirements, allow a low level of confidence for a crossover period

This recommendation is from *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies.* [31]

The disclosure of anticipated financial impacts of climate risks and opportunities offers greater transparency, allowing investors and stakeholders to assess the potential impacts of climate change on an organisation's future financial position.[32] This supports informed decision-making and confirms the credibility of an entity's strategy and transition plan. Climate change affects all economic sectors; however, the type and extent of exposure and impact of climate-related risks differ between sectors, industries, geographies and organisations.[33] Therefore, this information is key to upholding the core purpose of the NZ CS to 'support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate resilient future'.[34]

The Companies Act 1993 recognises the importance of reporting risk. The Act's purpose is in part 'to reaffirm the value of the company as a means of achieving economic and social benefits through the aggregation of capital for productive purposes, the spreading of economic risk, and the taking of business risks'.[35] Given the need for urgent climate action, entities should not be excused from disclosing crucial information to shareholders and stakeholders.

Delaying disclosure requirements will slow progress, not enable it.

7. Implement regular reviews of the framework

It is critical to review types of sustainability reporting regularly. Consistent reviews will help to build intelligence as to what works and what does not. These reviews should analyze impacts from the perspective of both the user and the preparers of reports.

Regular reviews will also be effective to prevent 'greenwashing' or any other sustainability information being reported that does not apply to the standards (e.g. like we are currently seeing with companies adding in non-GAAP information into annual reports).

8. Require assurance practitioners to be rotated every five years

The addition of a requirement for assurance practitioners to be rotated regularly (for instance every five years) will help improve transparency and accountability in the sector.

It is recommended this could take similar form to the current Audit Partner Rotation Provisions which exist in New Zealand. The FMA's *Audit Quality Director Guide* states 'there is mandatory rotation of audit partners for FMC audits (engagement lead audit partners have to rotate every seven years, or five years for most of the NZX-listed markets).'[36] It also notes 'Directors should consider whether their relationship with their audit firm and/or key audit staff has become too close to ensure they provide sufficient challenge. This is not in the best interests of directors or investors.' [37]

Regular rotation ensures quality and accuracy are checked and an independent relationship is maintained. A similar rotation for sustainability assurance practitioners would help to maintain independence, ensuring sustainability reporting information is both trustworthy and accurate.

5.0 Conclusion

New Zealand has the ability to be a world leader in quality sustainability assurance. Designing a clear framework for assurance is an essential part of ensuring our sustainability reporting is reliable and trustworthy for users. We need publicly available, meaningful and trustworthy assurance reports to help all stakeholders track alignment with climate targets. It is in the public interest to get this right.

From a long-term sustainability standpoint, the XRB's consultation offers an opportunity to align New Zealand's assurance and ethics frameworks with evolving global standards. However, as mentioned above, climate change is happening now and the delayed timeframes are concerning.

The Institute strongly recommends the XRB pursues a more ambitious and timely approach to improving New Zealand's sustainability framework. This will require clear timeframes, a consistent framework and support for entities as they transition to higher standards of reporting.

Key Institute recommendations

A: International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements for Sustainability Assurance Engagements (ISSA (NZ) 5000)

The Institute recommends

1. that CREs obligated to provide assurance for their climate statements should be mandatorily required to adopt ISSA (NZ) 5000. If CRE's wish to seek additional guidance, we suggest they read ISO 14064-3 and ISAE (NZ) 3410.

2. companies that report on greenhouse gases in their annual report should be mandatorily required to apply ISSA (NZ) 5000.

3. a clear timeline, support and tailored guidance should be provided for phasing out the older standards. This will improve accountability, usability and public trust in sustainability reporting.

B: International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand) (IESSA (NZ))

The Institute recommends

1. IESSA (NZ) is adopted, however, we note that some complexities of sustainability reporting should be considered.

C: *Revisions to the Code Addressing Using the Work an External Expert* applicable to all assurance engagements

The Institute recommends

1. work of external experts should be accepted, but it requires detailed regulations, definitions and guidance (detailed in the response to Q8 below). If information provided by external experts is not held to high standards, sustainability reporting may be seen as inconsistent and thus lose public trust and usability.

2. clear definitions should be implemented to define what is required for someone to be considered an 'expert' in their area of reporting and assurance.

D: New Zealand Standard on Assurance Engagements 1 (NZ SAE 1)

The Institute recommends

1. the addition of ISSA (NZ) 5000, however our view is that it should be mandated as a primary standard rather than an optional standard.

2. a clear timeline for implementation should be put in place to provide certainty for preparers, users and assurance providers.

3. making 'one-to-many' assurance reports publicly available will benefit New Zealand by building trust in sustainability information. If this approach is to progress, we consider there needs to be a high-level of transparency, with experts stating the purpose, who paid for the report and over what time frames the report has been prepared.

4. rather than delay the reporting and assurance of scope 3 GHG emissions, the XRB accept that preparers may only be able to report scope 3 emissions with a low level of confidence for say the next three years. This recommendation is explained in more detail in *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies.* [38]

E: International Standard on Assurance Engagements (New Zealand) 3410 (ISAE (NZ) 3410)

The Institute recommends

1. the decision to delay withdrawing ISAE (NZ) 3410 should not be delayed to a later date. Instead, the Institute recommends the XRB should define a clear transition period (including targeted guidance and training) to phase out ISAE (NZ) 3410 and replace it with ISSA 5000. Further delaying this transition undermines supporting New Zealand's long-term climate goals.

F: Applicable date of all standards

The Institute recommends

1. December 2026 is maintained as an implementation date. As discussed above, climate change is urgent and any further delays will undermine climate action accountability.

Further Institute recommendations

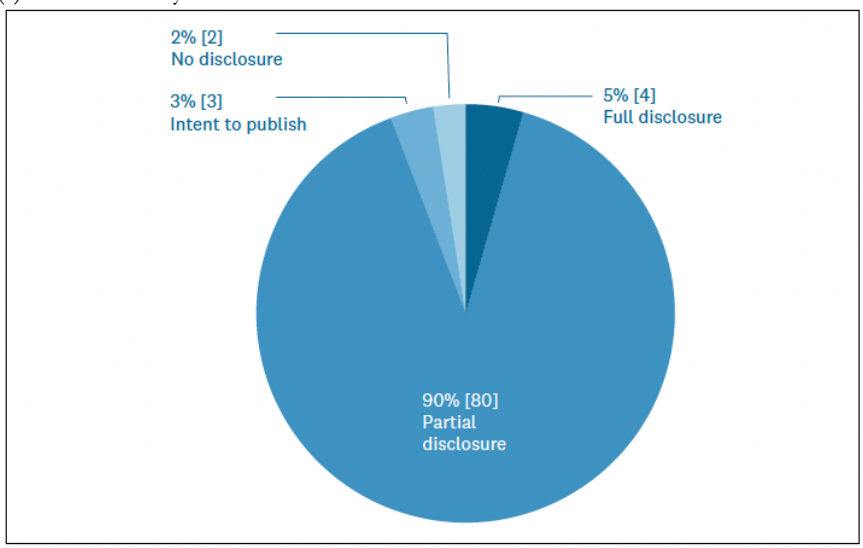
1. Consider integration in the broader external reporting framework
2. Reflect user needs and decision usefulness
3. Monitor, evaluate, and require regular feedback loops to ensure reporting remains fit for purpose
4. Where possible, minimize voluntary assurance as it is unregulated and unclear
5. Implement change now to reflect the changing climate
6. Rather than delaying disclosure requirements, allow a low level of confidence for a crossover period
7. Implement regular reviews of the framework
8. Require assurance practitioners to be rotated every five years.

Appendix 1: Selected Tables and Figures from Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies

Companies have worked hard to deliver users better quality information, both in terms of accuracy and breadth. The results below imply not only a successful start, but that others that are not required to produce this information, may require some form of mandatory reporting in the future.

Figure A1.1: Types of NZ CS disclosures made in FY24 annual reports by CREs compared with non-CREs
Source: McGuinness Institute, *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies,* September 2025.[39]

(a) CREs only



(b) Non-CREs

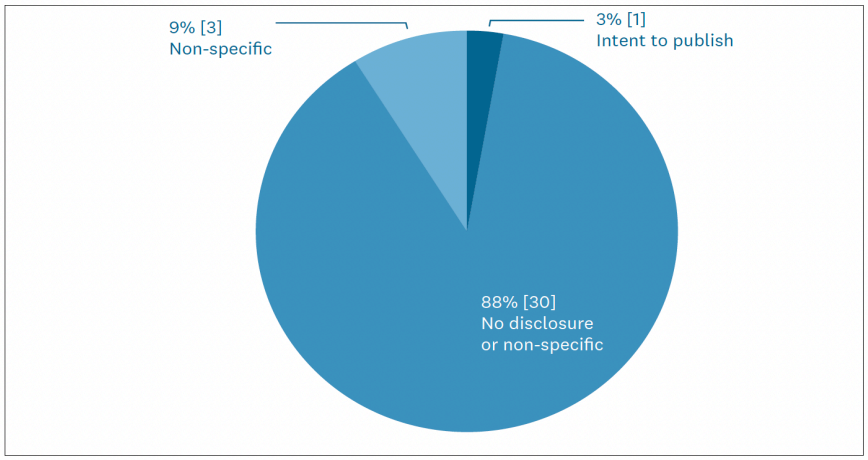


Figure A1.2: Adoption provisions applied in the FY23 and FY24 climate statements of NZSX-listed companies
Source: McGuinness Institute, *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies,* September 2025.[40]

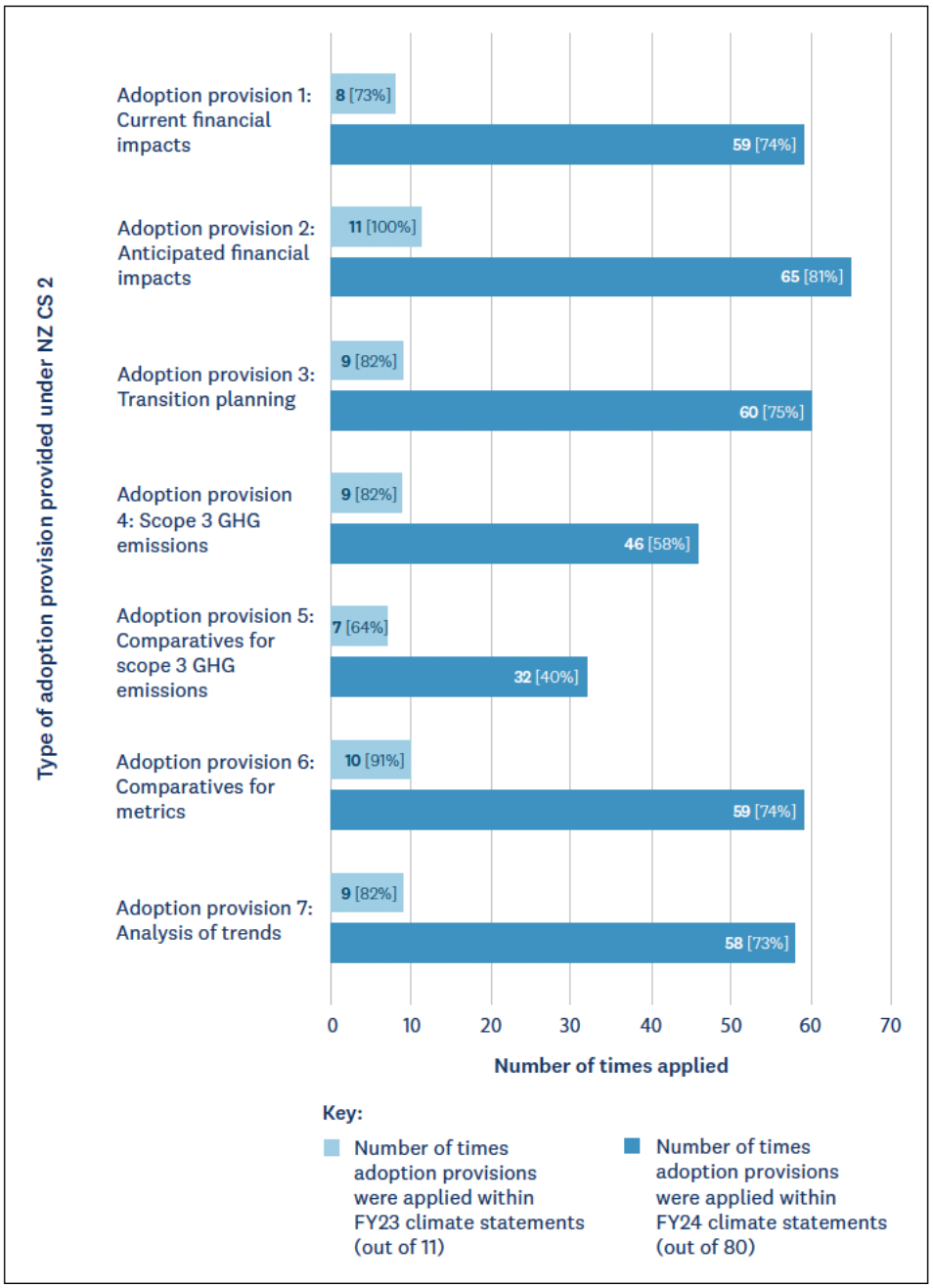


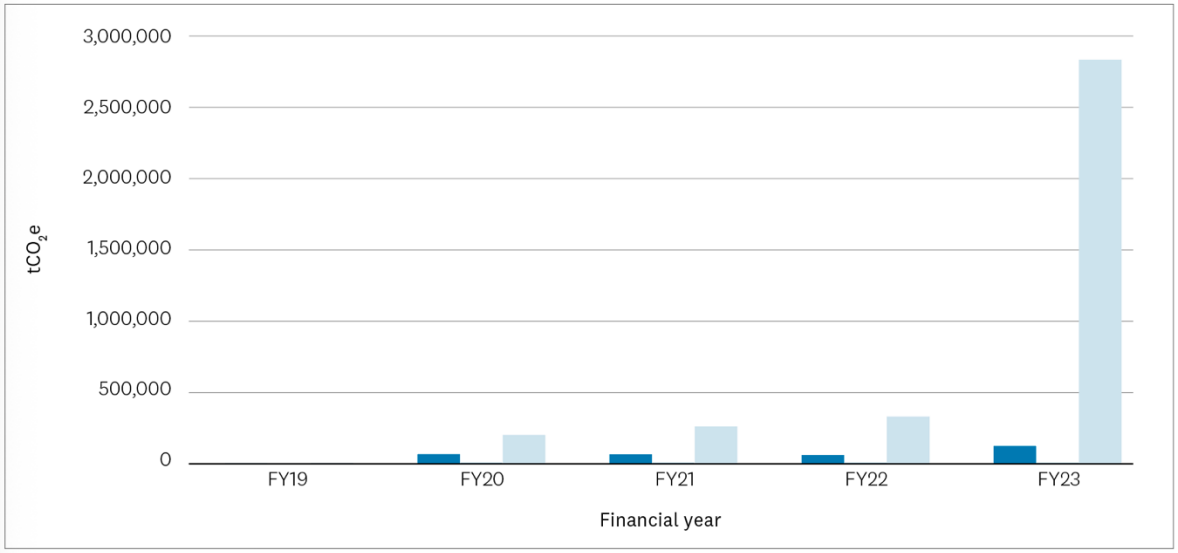
Table A1.1: Six early adopters that chose to fully report against NZ CS in FY23 annual reports
Source: McGuinness Institute, *Working Paper 2024/07 – Collating Climate Statements Contained in 2023 Annual Reports of NZSX-listed Companies,* September 2024.[41]

NZSX code	Legal name	Number of pages	See page
AIA	Auckland International Airport	13	27
IPL	Investore Property	10	42
MEL	Meridian Energy	32	62
SAN	Sanford	13	92
SEK	Seeka	15	105
THL	Tourism Holdings	22	121

Table A1.2: Six early adopters' GHG emissions (disclosed in FY23 annual reports)
Source: McGuinness Institute, *Working Paper 2024/07 – Collating Climate Statements Contained in 2023 Annual Reports of NZSX-listed Companies,* September 2024.[42]

		Auckland International Airport	Investore Property	Meridian Energy	Sanford	Seeka	THL Holdings	Total
FY19	Scope 1	2472	–	–	–	4051	–	6523
	Scope 2	3423	–	–	–	3973	–	7396
	Scope 3	6228	–	–	–	4069	–	10,297
	Total tCO_2e	12,123	–	–	–	12,093	–	24,216
FY20	Scope 1	2397	79	–	65,069	3803	–	71,348
	Scope 2	3224	11	–	2423	3696	–	9354
	Scope 3	5185	–	–	194,774	4452	–	204,411
	Total tCO_2e	10,806	90	–	262,266	11,951	–	285,113
FY21	Scope 1	1674	–	1020	62,130	3900	–	68,724
	Scope 2	2615	–	14	2349	4487	–	9465
	Scope 3	16,497	–	29,841	212,447	3987	–	262,772
	Total tCO_2e	20,786	–	30,875	276,926	12,374	–	340,961
FY22	Scope 1	2004	–	643	57,076	4465	–	64,188
	Scope 2	3007	–	2	1466	5708	–	10,183
	Scope 3	77,523	–	40,467	212,065	4618	–	334,673
	Total tCO_2e	82,534	–	41,112	270,607	14,791	–	409,044
FY23	Scope 1	2060	32	1191	60,103	5685	59,393	128,464
	Scope 2	2231	19	2	1493	2892	1953	8590
	Scope 3	2,579,061	10,861	46,565	184,386	4487	4126	2,829,486
	Total tCO_2e	2,583,352	10,912	47,758	245,982	13,064	65,472	2,966,540

Figure A1.3: Six early adopters' GHG emissions (disclosed in FY23 annual reports)
Source: McGuinness Institute, *Working Paper 2024/07 – Collating Climate Statements Contained in 2023 Annual Reports of NZSX-listed Companies*, September 2024.[43]



	FY19	FY20	FY21	FY22	FY23
Scope 1	6523	71,348	68,724	64,188	128,464
Scope 2	7396	9354	9465	10,183	8590
Scope 3	10,297	204,411	262,772	334,673	2,829,486

Appendix 2: Extract from Report 17: ReportingNZ: Building a Reporting Framework Fit for Purpose (June 2020)

Report 17 was an ambitious attempt to think more deeply about the purpose of New Zealand's reporting framework and the role of climate reporting in the future. In order to scope this report, it was critically important to set high-level principles (see the first three below).

The climate-related reporting framework for New Zealand should be:

1. Simple, coherent and easy for preparers to apply and for investors to understand and trust;
2. Cost-effective – provides value in terms of (i) the costs of preparation, assurance, compliance and regulation and (ii) the urgency in addressing the challenges facing New Zealand and the planet; and
3. Durable and 'future-proofed' – stands the test of time by balancing certainty with the necessary flexibility to deliver on its purpose for preparers and users of climate-related financial disclosures.

Given the above, the Institute proposes that New Zealand should:

1. Require mandatory reporting for selected entities where the benefits of disclosure outweigh the costs of preparing and reporting;
2. Set out a clear purpose for the framework which outlines what disclosures an entity must comply with and why;
3. Build on existing legislative and external reporting frameworks, design features and terminology;
4. Utilise New Zealand's international standing in standard-setting. New Zealand, through the XRB and Office of the Auditor-General (AG), has world-leading and proven reporting and assurance standard capabilities and expertise;
5. Utilise the expertise of the XRB, with a view to the XRB developing domestic standards to support entities to meet legislative requirements;
6. Align the reporting requirements of both for-profit and public benefit entities. This will not only benefit shareholders and other users by providing comparable information across both sectors, but will also benefit preparers and assurance providers as they move between the public and private sectors; and
7. Allow entities that are not subject to mandatory reporting to report voluntarily and to file their report in the same location as mandatory reporting entities. There will be reputational advantages of reporting in terms of attracting/retaining staff and growing supplier and customer loyalty. These advantages should be made available to all other entities (e.g. SMEs and other large private entities).

In this section the Institute explores three linked mechanisms in which climate-related financial reporting, through requiring selected entities to prepare a 'Statement of Climate Information', could be embedded into the New Zealand reporting framework. A 'Statement of Climate Information' would improve the quality and consistency of reporting on climate-related financial information to shareholders and other stakeholders of selected entities. This would be achieved by a mandatory reporting framework that centres on ensuring adequate material information is contained in annual reports (or as standalone document if the entity does not prepare an annual report). Material climate-related financial information would be along the lines of the TCPD voluntary reporting framework.

Major recommendation: Embed climate-related financial reporting into the New Zealand reporting framework. From the Institute's perspective, this should be managed by the XRB as part of their normal business practice of issuing standards for selected entities to report against. The Institute envisages that this would result in a 'Statement of Climate Information' prepared and signed by two directors, audited by an external party and published in the entity's annual report (this is referred to as major recommendation 6 in Section 8).

Source: McGuinness Institute, *Report 17: ReportingNZ: Building a Reporting Framework Fit for Purpose*, June 2020.[44]

Appendix 3: Extract from *Financial Times*

As we go to print, there continues to be debate over ESG, driven particularly by the US. This article by the *Financial Times* is insightful, but also reinforces the continued need for ESG information.

Recommended



Markets Insight Andreas Utermann

The push for ESG risks conflict with fiduciary responsibilities

Probably the most important development on climate reporting in the past few years is the publication of reporting standards by the International Sustainability Standards Board. In 2023, the ISSB published the IFRS S1 framework for reporting on material sustainability risks, and IFRS S2 on climate-related disclosures.

The Securities and Exchange Commission voted this year to end its defence of a rule that would have required US companies to report on climate risks, and new chair Paul Atkins has attacked the new ISSB standards as driven by "ideologues". But so far 37 jurisdictions have adopted or plan to adopt them, including a wide range of countries such as Australia, Bangladesh, Brazil, Chile, Hong Kong, Kenya, Malaysia, Mexico, Nigeria, Pakistan and Turkey. The standards also have been supported by key international bodies including the G7, the International Organization of Securities Commissions and the Financial Stability board.

Source: Berg, F. (2025). *ESG might be more resilient than critics expect.* [online] Available at: https://www.ft.com/content/32870df4-ba4a-42cd-9fcb-480df70c5022?accessToken=zwAGQMMKJe0Qkc8yhw30ukpCzdOfy0gN9wxQIg.MEUCIQC1ZXqVn7jsXX0CnknZFIsAVLE7tsPV911Jah9riMbXCAIgHJCrz2bVtqQsTHeJOLt8zpTuMKbszAKKSfhOh_f8xWc&sharetype=gift&token=a29dc90a-2d25-4083-bbdf-4518c2c0cc8f [Accessed 9 Oct. 2025].

Endnotes

[1] McGuinness Institute (2025). *Working Paper 2025/05 – Reviewing Non-GAAP Financial Information in Annual Reports and Market Announcements of NZSX-listed Companies*. [online] Available at: https://www.mcguinnessinstitute.org/publications/working-papers [in press].

[2] McGuinness Institute (2025). *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies*. [online] Available at: https://www.mcguinnessinstitute.org/publications/working-papers [in press].

[3] McGuinness Institute (2025). *Working Paper 2025/07 – Analysing Carbon Offset Information Disclosed in 2021–2024 Annual Reports of NZSX-listed Companies*. [in press] Available at: https://www.mcguinnessinstitute.org/publications/working-papers [Accessed 3 Oct. 2025].

[4] Kumar Mahla, P. (2025). Monsoon flooding has killed hundreds in Pakistan – climate change is pushing the rainy season from blessing to looming catastrophe. *ABC Asia*. [online] 28 Aug. Available at: https://www.abc.net.au/asia/monsoon-flooding-deaths-pakistan-climate-change/105706870 [Accessed 24 Sep. 2025].

[5] NASA (2025). *Wildfires and Climate Change*. [online] Available at: https://science.nasa.gov/earth/explore/wildfires-and-climate-change [Accessed 24 Sep. 2025].

[6] Keane, F. (2025). Migrant crisis: How Europe went from Merkel's 'We can do it' ten years ago to pulling up the drawbridge. *BBC*. [online] 4 Sep. Available at: https://www.bbc.com/news/articles/cn5e5q7w41eo [Accessed 24 Sep. 2025]

[7] Libatique, R. (2025). Modelling reveals where storms and floods may hit hardest in New Zealand. *Insurance Business*. [online] 12 Aug. Available at: https://www.insurancebusinessmag.com/nz/news/catastrophe/modelling-reveals-where-storms-and-floods-may-hit-hardest-in-new-zealand-545883.aspx [Accessed 24 Sep. 2025]

[8] McCready, T. (2025). Mood of the Boardroom: Leaders warn global instability hitting business. *NZ Herald*. [online] 23 Sep. Available at: https://www.nzherald.co.nz/business/business-reports/mood-of-the-boardroom/mood-of-the-boardroom-leaders-warn-global-instability-hitting-business/V3TIERH5NBHFFBWEMWBSXG76GI [Accessed 24 Sep. 2025].

[9] International Auditing and Assurance Standards Board (IAASB) (2025). *ISSA 5000 Adoption and Implementation*. [online] Available at: https://www.iaasb.org/consultations-projects/issa-5000-adoption-and-implementation [Accessed 9 Oct. 2025].

[10] External Reporting Board (XRB) (2025). *International Standard on Sustainability Assurance (New Zealand) (ISSA (NZ)) 5000 General Requirements for Sustainability Assurance Engagements Exposure Draft* . [online] p.8. Available at: https://www.xrb.govt.nz/assets/Audit-Assurance/consultation-documents/ISSA-NZ-5000-final-ED.pdf [Accessed 9 Oct. 2025].

[11] International Foundation for Ethics and Audit (IFEA) (2025). *IAASB and IESBA Unveil New Standards and Guidance to Strengthen Sustainability Reporting and Assurance*. [online] International Foundation for Ethics and Audit. Available at: https://www.ethicsandaudit.org/news-events/2025-01/iaasb-and-iesba-unveil-new-standards-and-guidance-strengthen-sustainability-reporting-and-assurance [Accessed 9 Oct. 2025].

[12] International Foundation for Ethics and Audit (IFEA) (2025). *IAASB and IESBA Unveil New Standards and Guidance to Strengthen Sustainability Reporting and Assurance*. [online] International Foundation for Ethics and Audit. Available at: https://www.ethicsandaudit.org/news-events/2025-01/iaasb-and-iesba-unveil-new-standards-and-guidance-strengthen-sustainability-reporting-and-assurance [Accessed 9 Oct. 2025].

[13] Hay, D., Harding, N., Nives , B., Khan, J., Singh, H., Sultana, N. and You, J. (2024). Comments on recent International Ethics Standards Board for Accountants Exposure Drafts regarding sustainability assurance and the use of external experts. *Accounting and Finance*, [online] p.2. doi:https://doi.org/10.1111/acfi.13302.

[14] Hay, D., Harding, N., Nives , B., Khan, J., Singh, H., Sultana, N. and You, J. (2024). Comments on recent International Ethics Standards Board for Accountants Exposure Drafts regarding sustainability assurance and the use of external experts. *Accounting and Finance*, [online] p.1. doi:https://doi.org/10.1111/acfi.13302.

[15] Hay, D., Harding, N., Nives , B., Khan, J., Singh, H., Sultana, N. and You, J. (2024). Comments on recent International Ethics Standards Board for Accountants Exposure Drafts regarding sustainability assurance and the use of external experts. *Accounting and Finance*, [online] p.2. doi:https://doi.org/10.1111/acfi.13302.

[16] Ministry for the Environment (MFE) (2024). *New Zealand's first Biennial Transparency Report under the Paris Agreement*. [online] Available at: https://environment.govt.nz/publications/new-zealands-first-biennial-transparency-report-under-the-paris-agreement [Accessed 24 Apr. 2025].

[17] Ministry for the Environment (MFE) (2024). *New Zealand's first Biennial Transparency Report under the Paris Agreement*. [online] p.70. Available at: https://environment.govt.nz/publications/new-zealands-first-biennial-transparency-report-under-the-paris-agreement [Accessed 24 Apr. 2025].

[18] Ministry for the Environment (MFE) (2025). *New Zealand's second Nationally Determined Contribution: Submission under the Paris Agreement*. [online] pp.2–3. Available at: https://environment.govt.nz/publications/new-zealands-second-nationally-determined-contribution-submission-under-the-paris-agreement [Accessed 24 Apr. 2025].

[19] CDP and Boston Consulting Group (BCG) (2024). S*COPE 3 UPSTREAM: Big Challenges, Simple Remedies*. [online] pp.7–8. Available at: https://www.eticanews.it/wp-content/uploads/2024/06/Scope-3-Upstream-Report.pdf [Accessed 28 Aug. 2025].

[20] McGuinness Institute (2025). *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies*. [online] Available at: https://www.mcguinnessinstitute.org/publications/working-papers [Accessed 3 Oct. 2025].

[21] McGuinness Institute (2025). *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies*. [online] Available at: https://www.mcguinnessinstitute.org/publications/working-papers [Accessed 3 Oct. 2025].

[22] External Reporting Board (XRB) (2024). *ISAE (NZ) 3410*. [online] Available at: https://www.xrb.govt.nz/standards/assurance-standards/other-assurance-engagement-standards/isae-nz-3410/ [Accessed 8 Oct. 2025].

[23] External Reporting Board (XRB) (2024). *ISAE (NZ) 3410*. [online] Available at: https://www.xrb.govt.nz/standards/assurance-standards/other-assurance-engagement-standards/isae-nz-3410 [Accessed 8 Oct. 2025].

[24] CDP and Boston Consulting Group (BCG) (2024). S*COPE 3 UPSTREAM: Big Challenges, Simple Remedies*. [online] pp.7–8. Available at: https://www.eticanews.it/wp-content/uploads/2024/06/Scope-3-Upstream-Report.pdf [Accessed 28 Aug. 2025].

[25] McGuinness Institute (2024). *Submission 2024/06 – XRB: Proposed 2024 Amendments to Climate and Assurance Standards*. [online] p.5. Available at: https://www.mcguinnessinstitute.org/publications/submissions [Accessed 15 Sep. 2025].

[26] McGuinness Institute (2024). *Discussion Paper 2024/01 – Risks Hiding in Plain Sight: Does a commitment under the Paris Agreement to purchase offshore carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government?* [online] Available at: www.mcguinnessinstitute.org/publications/discussion-papers [Accessed 24 Sep. 2025].

[27] External Reporting Board (XRB) (2018). *New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework)*. [online] Available at: https://www.xrb.govt.nz/standards/accounting-standards/for-profit-standards/conceptual-frameworks [Accessed 24 Sep. 2025].

[28] McGuinness Institute (2025). *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies*. [online] Available at: https://www.mcguinnessinstitute.org/publications/working-papers [in press].

[29] McGuinness Institute (2020). *Report 17: ReportingNZ: Building a Reporting Framework Fit for Purpose.* [online] p.109. Available at: https://www.mcguinnessinstitute.org/publications/working-papers [Accessed 4 Sep. 2025].

[30] External Reporting Board (XRB) (2018). *New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework).* [online] Available at: https://www.xrb.govt.nz/standards/accounting-standards/for-profit-standards/conceptual-frameworks [Accessed 24 Sep. 2025].

[31] McGuinness Institute (2025). *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies.* [online] Available at: https://www.mcguinnessinstitute.org/publications/working-papers [in press].

[32] Task Force on Climate-related Financial Disclosures (TCFD) (2017). *Recommendations of the Task Force on Climate-related Financial Disclosures.* [online] p.8. Available at: https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf [Accessed 4 Sep. 2025].

[33] Task Force on Climate-related Financial Disclosures (TCFD) (2017). *Recommendations of the Task Force on Climate-related Financial Disclosures.* [online] p.8. Available at: https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf [Accessed 4 Sep. 2025].

[34] External Reporting Board (XRB) (2024). *Aotearoa New Zealand Climate Standards.* [online] Available at: https://www.xrb.govt.nz/standards/climate-related-disclosures/aotearoa-new-zealand-climate-standards [Accessed 23 Apr. 2025].

[35] *Companies Act 1993, Contents.* [online] Available at: https://www.legislation.govt.nz/act/public/1993/0105/latest/DLM319570.html [Accessed 4 Sep. 2025].

[36] Financial Markets Authority (FMA) (2019). *Audit quality – a director's guide.* [online] p.5. Available at: https://www.fma.govt.nz/assets/Guidance/Audit-quality-director-guide-2019.pdf [Accessed 10 Oct. 2025].

[37] Financial Markets Authority (FMA) (2019). *Audit quality – a director's guide.* [online] p.5. Available at: https://www.fma.govt.nz/assets/Guidance/Audit-quality-director-guide-2019.pdf [Accessed 10 Oct. 2025].

[38] McGuinness Institute (2025). *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies.* [online] Available at: https://www.mcguinnessinstitute.org/publications/working-papers [Accessed 3 Oct. 2025].

[39] McGuinness Institute (2025). *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies.* [online] p.21. Available at: https://www.mcguinnessinstitute.org/publications/working-papers [Accessed 15 Sep. 2025].

[40] McGuinness Institute (2025). *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies.* [online] p.24. Available at: https://www.mcguinnessinstitute.org/publications/working-papers [Accessed 15 Sep. 2025].

[41] McGuinness Institute (2024). *Working Paper 2024/07 – Collating climate statements contained in 2023 annual reports of NZSX-listed companies.* [online] p.16. Available at: https://www.mcguinnessinstitute.org/publications/working-papers [Accessed 4 Sep. 2025].

[42] McGuinness Institute (2024). *Working Paper 2024/07 – Collating climate statements contained in 2023 annual reports of NZSX-listed companies.* [online] p.17. Available at: https://www.mcguinnessinstitute.org/publications/working-papers [Accessed 4 Sep. 2025].

[43] McGuinness Institute (2024). *Working Paper 2024/07 – Collating climate statements contained in 2023 annual reports of NZSX-listed companies.* [online] p.18. Available at: https://www.mcguinnessinstitute.org/publications/working-papers [Accessed 4 Sep. 2025].

[44] McGuinness Institute (2020). *Report 17: ReportingNZ: Building a Reporting Framework Fit for Purpose.* [online] p.109. Available at: https://www.mcguinnessinstitute.org/publications/working-papers [Accessed 4 Sep. 2025].

OFFICE OF THE AUDITOR-GENERAL
Te Mana Arotake

100 Molesworth Street, Thorndon 6011
PO Box 3928, Wellington 6140, New Zealand

Telephone: +64 4 917 1500
Email: enquiry@oag.parliament.nz

Website: www.oag.parliament.nz

10 October 2025

Graeme Pinfold
Chair
New Zealand Auditing and Assurance Standards Board
Level 6
154 Featherston Street
Wellington 6011

Tēnā koe Graeme

Proposed alignment with international standards - Sustainability Assurance, Ethics and Independence, and Using Work of an External Expert

Thank you for the opportunity to comment on the consultation document titled "Alignment with international standards".

As the Auditor-General is the climate-related disclosures assurance practitioner for an assurance engagement required for the purposes of Part 7A of the Financial Markets Conduct Act 2013 by a climate reporting entity that is a public entity, our submission reflects the perspective of mandatory assurance of greenhouse gas ('GHG') emissions disclosures.

Overall, we support alignment with international standards, and adoption of tailored ethical and independence requirements relevant to sustainability assurance engagements.

Below are our comments on the proposed new assurance engagement standard and related amendments to the temporary assurance standard for GHG disclosure engagements.

ISSA (NZ) 5000 *General Requirements for Sustainability Assurance Engagements*

We agree with your Board's proposal to adopt ISSA (NZ) 5000 in New Zealand for reporting periods beginning on or after 15 December 2026, aligned with the application date of the international standard.

We agree that adoption of ISSA (NZ) 5000 enables practitioners to remain aligned with international standards that reflect the most up to date international thinking on sustainability assurance. We note that ISSA (NZ) 5000 contains application material relating to value chain components. The New Zealand member firms of global networks will benefit from moving their methodologies to align with ISSA 5000. Further, alignment with Australia will be beneficial for assurance practitioners who may want to use this standard for Trans-Tasman engagements.

Amendments to NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*

We support adding ISSA (NZ) 5000 as an option for the mandatory assurance of GHG emissions disclosures within NZ SAE 1. We agree that the use of ISSA (NZ) 5000 should not be mandated.

We also support retaining ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements* as an option in NZ SAE 1. In our opinion, ISAE (NZ) 3410, being a topic-specific standard for GHG emissions assurance, provides practical and useful guidance. Therefore, there is value in retaining ISAE (NZ) 3410. Assurance practitioners in New Zealand have invested in methodologies, tools, and templates, that align with the requirements of ISAE (NZ) 3410. In particular, our inhouse provider (which does not have global firms' support) will benefit from continuing to use ISAE (NZ) 3410 until an ISSA (NZ) 5000 methodology is more broadly developed.

We agree that your Board should defer any decision to withdraw ISAE (NZ) 3410 to a later date, preferably until future decisions on NZ SAE 1 are made. We encourage your Board to monitor how the international standard is adopted and applied in practice as global reporting and assurance of sustainability information continue to evolve. We also think that your Board should not withdraw or replace NZ SAE 1 before the New Zealand Government announces changes to the regulatory disclosure regime. Certainty is essential for both climate reporting entities and assurance practitioners.

If you have any questions, please contact me at miranda.biggins@oag.parliament.nz.

Nāku noa nā

Miranda Biggins

Miranda Biggins
Director, Audit Operations
Audit Quality Group



External Reporting Board (XRB)
Level 6/154 Featherston St
Central Wellington 6011

10 October 2025

International alignment consultation

Dear Sir / Madam

We thank you for the opportunity to submit our response to your consultation Alignment with international standards: Sustainability assurance, ethics and independence and using the work of an external expert.

We support the adoption of ISSA (NZ) 5000 and IESSA (NZ) within New Zealand and encourage conformity with international standards and alignment with global market expectations. We do not support the continued use of other frameworks and standards for the reasons described below and would welcome further consideration by the XRB of whether to discontinue the temporary NZ SAE 1 and withdraw ISAE (NZ) 3410 on the basis that the adoption of the international standards renders these NZ specific standards no longer necessary to achieve an appropriate level of quality in the assurance market.

- IESSA and ISSA 5000 are practitioner-agnostic and designed to achieve inclusivity and competition in the assurance market, which was one of the XRB's intentions when it created NZ SAE 1.
- Reducing complexity will help reduce cost of assurance for reporting entities: overlapping frameworks means duplicated policies, templates, training and documentation and creates the potential for confusion and conflicting requirements.
- Consistency and comparability in assurance practices builds a credible assurance market: overlapping concepts risks divergent interpretations, meaning inconsistent levels of work for the same expressed level of assurance. Users benefit from simplicity and comparability.
- Additional requirements that are inconsistent with international standards creates unnecessary burden on NZ assurance practitioners and adds costs for reporting entities in New Zealand. As an example; NZ SAE 1 requires an engagement quality reviewer (EQR) for each engagement, which is inconsistent with IESSA and ISSA 5000 requirements which allows practitioners to adopt a risk based approach to evaluating whether an EQR is appointed.
- Divergence from international standards creates additional complexities when providing group-level assurance engagements across multiple jurisdictions.
- The above may present challenges for the standard setting body and regulators in addition to practitioners and users and of the assurance reports.



Our detailed comments follow.

Our responses have been based on an holistic assessment of the potential impact of adopting IESSA and ISSA 5000 and the retention, or not, of the NZ standards, NZ SAE 1 and ISAE (NZ) 3410. Accordingly, our views, including some of our recommendations, might change if different outcomes are determined by the Board.

We acknowledge the efforts of the XRB and the speed at which the Board was able to develop a sustainability assurance framework that was fit for purpose at the time and ahead of the international standard setting bodies.

Detailed Comments:

Q1: Do you agree with the proposal to adopt ISSA (NZ) 5000 in New Zealand?

Yes, with comments.

ISSA (NZ) 5000 is a comprehensive standard that extends beyond GHG disclosures. This will be increasingly useful and relevant to engagements seeking assurance on subject matters beyond the current legislative requirements. It provides the opportunity to apply a single standard across a broad range of sustainability information.

Being practitioner-agnostic, ISSA (NZ) 5000 is inclusive and enables a broad range of sustainability practitioners to provide assurance to an internationally recognised standard of quality. This creates a competitive market for assurance whilst maintaining consistency, trust and credibility.

We consider conformity with the international standards to be important to the integrity of the profession given the global reach of our clients.

Q2: Is your firm intending to transition to ISSA (NZ) 5000 for sustainability assurance engagements? If yes, when?

- **Unknown, with comments.**

Adopting the effective dates as proposed in the ISSA 5000 standard supports global alignment and user experience across different territories.

Across our network of firms, only by exception is PwC preparing to transition before the effective date. In these cases, early adoption is not voluntary but a requirement that this standard will be mandated early, for example, in Australia where it is required to utilise ASSA 5000 for trans-tasman engagements reporting under the Australian Sustainability Reporting Regime (ASRS) from December 2025. For the assurance of NZ CREs who are also reporting under ASRS, it would be sensible to utilise ISSA (NZ) 5000 when available, as the incremental effort (after having adopted ASSA 5000) would likely be minimal.

Having multiple standards available would, in our view, be confusing to practitioners and users. As an example; a dual reporter, presenting year one ASRS information, a voluntary metric, and GHG Disclosures could face 7 different variations of requirements across the different assurance standards. Refer to illustration 1-1.



If the Board decides to transition to ISSA 5000, we would be concerned if NZ SAE 1 and ISAE (NZ) 3410 were retained for the reasons outlined.

Illustration 1 - 1

Dual reporter with one voluntary metric could result in an assurance report as follows:

	NZ CS GHG Disclosures (NZ options)	**Voluntary Metric (NZ options)**	**ASRS Year 1 Information (AU requirement)**
1	NZ SAE 1, ISAE (NZ) 3410	ISAE (NZ) 3410 and/or ISAE (NZ) 3000	ASSA 5000/ISSA 5000
2	NZ SAE 1, ISAE (NZ) 3410,	ASSA 5000/ISSA 5000	ASSA 5000/ISSA 5000
3	NZ SAE 1, ASSA 5000/ISSA 5000	ISAE (NZ) 3410 and/or ISAE (NZ) 3000	ASSA 5000/ISSA 5000
4	NZ SAE 1, ASSA 5000/ISSA 5000	ASSA 5000/ISSA 5000	ASSA 5000/ISSA 5000
5	NZ SAE 1, ISO 14064/14065	ISAE (NZ) 3410 and/or ISAE (NZ) 3000	ASSA 5000/ISSA 5000
6	NZ SAE 1, ISO 14064/14065	ASSA 5000/ISSA 5000	ASSA 5000/ISSA 5000
7	NZ SAE 1, ISO 14064/14065	ISO 14064/14065	ASSA 5000/ISSA 5000

**Varying requirements in independence and ethical standards across territories, and measurement frameworks further increase this variability between reporting entities.*

Q3: Do you agree with the proposed New Zealand specific changes to ISSA (NZ) 5000:

a) To clarify the scope

No, with comments.

Refer to our response to Q1 and Q2. Whilst we agree with the proposed adoption of ISSA (NZ) 5000, we do not agree with the retention of NZ SAE 1 as intended by paragraph NZ8A.

NZ SAE 1 has incremental requirements to ISSA (NZ) 5000, whilst being more limited in scope and less comprehensive than ISSA (NZ) 5000. Further analysis by the Board as to the benefits versus costs of the incremental requirements in NZ SAE 1 would be useful to share with the profession to assist with understanding the Board's objective in retaining NZ SAE 1 if that is the case.

As an example of the incremental requirements, NZ SAE 1 requires an engagement quality review (EQR) for each engagement and introduces the concept of reporting key matters. We are not sure that a cost versus benefit analysis would support the additional requirements over the international standards,



acknowledging that the provisions in the international standards give assurance providers the ability to use EQRs as determined is appropriate based on risk of the engagement. An EQR may not be warranted on lower risk or non-complex assurance engagements, or where an entity (not a CRE) voluntarily reports and obtains assurance on those GHG Disclosures. Refer to our response on "*other matters that you recommend XRB add to ISSA (NZ) 5000*" for our views on reporting key matters.

NZ SAE 1 also lacks guidance/requirements that are within ISSA (NZ) 5000 such as requirements for assessing estimates and forward looking information, how to address groups and value chain entities, definitions of engagement team vs. using the work of others and additional guidance on materiality.

b) To address the existence of relationships that the assurance practitioner may have?

Yes, but with comments.

Paragraph 190(d) NZ(V)(a) of the ED could be clarified to define what is meant by "other than that of practitioner". We believe this could be interpreted differently among practitioners who may be providing other assurance and non-assurance services as these other services may be performed in the practitioner's capacity as an assurance practitioner or appointed auditor. Further, this could be applied inconsistently to NZ SAE 1.57 which requires a statement as to the "existence of any relationship (other than undertaking the GHG assurance engagement) . . . ", which implies that each relationship established by undertaking any service needs to be explicitly stated.

Are there any other matters that you recommend that the XRB add to ISSA (NZ) 5000?

The requirement to report Key Matters (KMs) is not included in ISSA 5000. While we understand the basis for including this requirement in NZ SAE 1, from our review of publicly available assurance reports, the practical application of the requirement appears to be varied given the criteria that would warrant a KM. The nature of the reporting and extent of disclosure should respond to the needs of users. We support not requiring KMs in the assurance reports.

However, if the Board is contemplating the requirement to report key matters (KMs) from NZ SAE 1 as a prohibitive factor in retiring NZ SAE 1, the reporting requirement could be added to ISSA (NZ) 5000 as an alternative.

Issue IESSA (NZ)

Q4: Do you agree with the proposal to adopt the IESSA (NZ) in New Zealand?

Yes, with consideration to an appropriate implementation timeline that aligns with global transition relief and which will minimise international inconsistencies for practitioners and users. For example, the global pronouncement will be effective from 15 December 2026 (Australian equivalent from 1 January 2026), except for sustainability assurance provisions applicable to value chain components in Part 5, which will be effective from 1 July 2028 for both the international and Australian regimes.



Q5: Is your firm intending to transition to the IESSA (NZ) for sustainability assurance engagements? If yes, when?

Yes, with comments.

As an audit and assurance firm, we comply with Part 1 - Part 4 of the Code of Ethics, which are largely consistent with Part 5 of IESSA (NZ). We have not identified incremental challenges in complying with Part 5, rather we found it clarified some of the earlier assumptions and interpretations we had made based on complying with Part 1 - Part 4.

To uphold a consistent standard of ethics that users can expect from the sustainability assurance market, we believe its adoption should be mandated rather than optional for engagements performed in accordance with ISSA (NZ) 5000 and/or NZ SAE 1 if retained.

Q6: Do you agree with the proposed New Zealand changes to IESSA (NZ):

a) To clarify the scope

No, with comments.

Aligned with our response to Q3, multiple frameworks and standards may create confusion and inconsistent outcomes. In the interests of international consistency and market consistency in NZ, we support the adoption of one framework.

Retaining NZ SAE 1 would likely give rise to a risk that practitioners evaluate ethical and independence requirements differently when carrying out an assurance engagement on similar subject matters. An assurance report issued under NZ SAE 1 versus ISSA 5000 may not be entirely comparable creating confusion in the market.

IESSA (NZ) is a profession agnostic standard, allowing practitioners to apply ethical and independence standards that an appropriate authority has determined to be at least as demanding as the provisions of the Professional and Ethical Standard. It is therefore not prohibitive to practitioners outside of the accounting profession, but will ensure the ethical and independence requirements would be assessed by an appropriate authority to be at least as demanding as those applied by practitioners required to comply with IESSA.

b) To replicate amendments in PES 1?

Yes, without comment.

Are there any other matters that you recommend the XRB add to IESSA (NZ)?

Yes, with comments.

There may be unintended consequences arising from some requirements and further clarification may assist practitioners to understand the extent to which independence threats are evaluated. Specifically,



we refer to evaluating work at a value chain component and the practical limitations that may exist, as well as the likelihood of threats to independence arising. Further clarification and examples would assist practitioners in applying the requirements to the extent anticipated by the standard setters.

Q7: Do you agree with the proposal to adopt the Revisions to the Code Addressing Using the Work of an External Expert in New Zealand?

Yes, with comments.

We are largely supportive of this proposal, but acknowledge that the revisions to the code address external experts only. Consistent with PES 3 quality management requirements which include a system of quality management that deals with both internal and external personnel, PES 1 could be updated to contain requirements that deal with using the work of both internal and external experts. This would then remove the need to refer to another auditing or assurance standard when using the work of an internal expert, and these duplicative requirements could be removed from those other auditing and assurance standards.

Q8: Are there any New Zealand changes that you recommend the XRB add to the standard Addressing Using the Work of an External Expert?

No, without comment.

Q9: Do you support adding a third option to NZ SAE 1 to enable assurance practitioners to apply ISSA (NZ) 5000 for mandatory GHG assurance engagements?

No, with comments.

We are of the view that NZ SAE 1 and ISAE (NZ) 3410 become redundant on adoption of IESSA and ISSA 5000. As noted, there is a significant risk of confusion both for practitioners and users of the reports and a risk of varying quality.

We agree early adoption of ISSA (NZ) 5000 should be available during a period of transition to ISSA (NZ) 5000, however we encourage the Board to consider a single, consistent set of standards without any deferral or delay beyond international adoption timeframes, which will align expectations among reporters, practitioners and users of the assurance reports.

Q10: Do you support the proposed conditional requirement for one-to-many reports being added to NZ SAE 1?

Yes, however with regard to our comments on retiring NZ SAE 1.

Q11:Do you agree that the XRB should defer any decision to withdraw ISAE (NZ) 3410 to a later date?



No, without comment.

Q12: Do you agree with the proposed application date for assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026? The proposal is to align with the effective dates of the international standards.

Yes, without comment.

Other

Q13: Do you have any further comments?

Yes.

1. ISSA (NZ) 5000 ED, paragraphs 156 - 158 do not include a responsibility to communicate to those charged with governance. We consider it crucial to communicate such misstatements (other than those that are clearly trivial) to the individuals with oversight and responsibility for the preparation of the sustainability information.

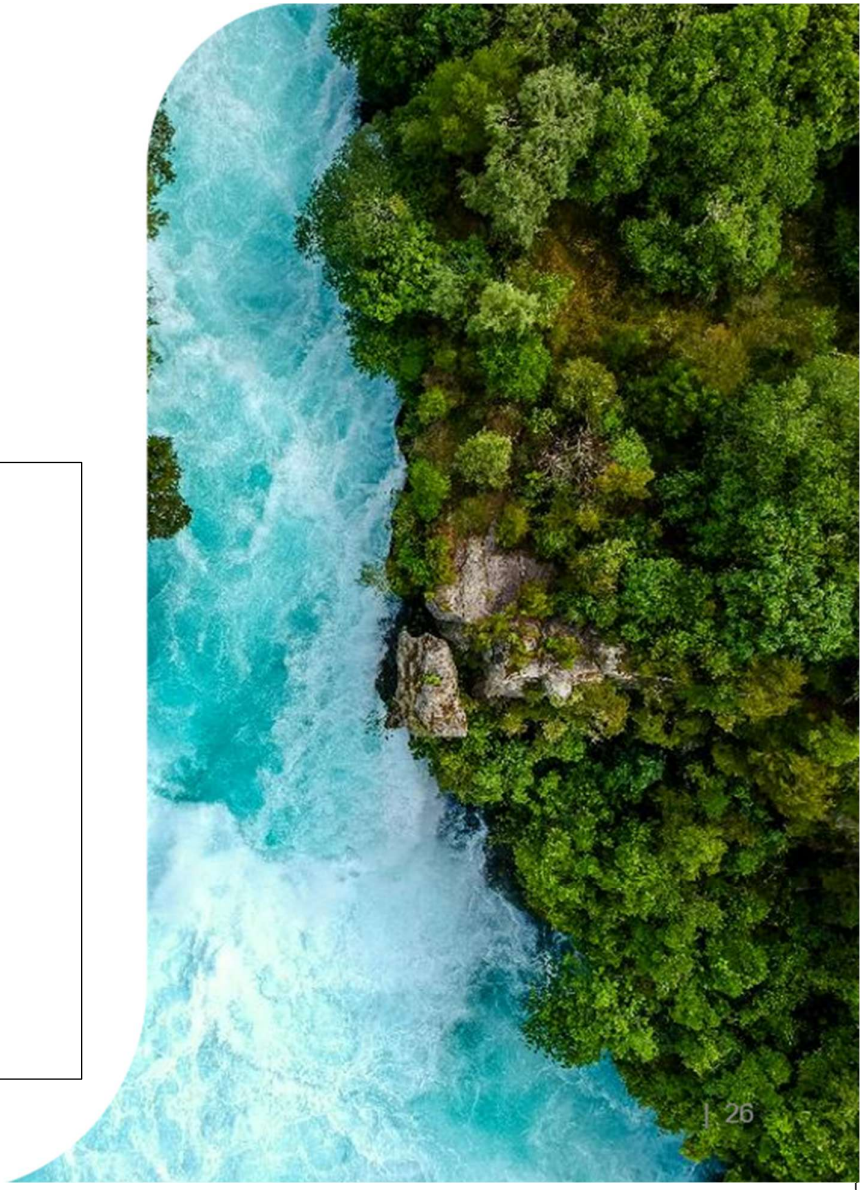
2. Similarly, paragraph 165, refers to obtaining management representations and Those Charged With Governance (where appropriate). The ED implies that you could obtain representations from management, or management and those charged with governance, but does not allow a practitioner to determine that TCWG are the appropriate party from which to obtain representation. We believe this shifts the burden of properly informing themselves from TCWG to the practitioner.

3. Paragraph 171(b) of the ISSA (NZ) 5000 ED may be unintentionally restrictive and cause delay in reporting sustainability information where other information is not prepared by the entity in a timely manner. We believe there may be instances where the report date may be earlier than the finalisation of the other information. ISSA (NZ) 5000 may benefit by including similar options that are available to an auditor in performing and reporting on responsibilities in accordance with ISA (NZ) 720.

TOITŪ ENVIROCARE

Response to XRB consultation

October 2025



Consultation Question	Toitu Response	Support
Q1: Do you agree with the proposal to adopt ISSA (NZ) 5000 in New Zealand?	Toitū Envirocare supports the adoption of ISSA (NZ) 5000 as an available assurance standard within the New Zealand framework, noting that it provides an internationally aligned structure for sustainability assurance and will help ensure consistency across markets. Toitū recommends the XRB maintain flexibility by continuing to recognise ISO-based methodologies as equivalent and acceptable approaches under NZ SAE 1. This alignment would prevent unnecessary duplication of assurance systems and reduce transition burden on providers.	Yes
Q2: Is your firm intending to transition to ISSA (NZ) 5000 for sustainability assurance engagements? If yes, when?	Yes, Toitū plans on transitioning. While we recognise the value of ISSA (NZ) 5000 for broader sustainability engagements, full transition will depend on: a) clear mapping between NZSAE1 and ISSA (NZ) requirements. b) updating our internal processes and documents to integrate the PES 1, 3, 4 and 5 and IESSA(NZ) standard requirements. We anticipate a transition horizon between 2026–2027, allowing sufficient time for integration.	Yes
Q3: Do you agree with the proposed New Zealand changes to ISSA (NZ) 5000: (a) to clarify the scope; and (b) to address the existence of relationships that the assurance practitioner may have? Are there any other matters that you recommend that the XRB add to ISSA (NZ) 5000?	Toitū agrees with the proposed New Zealand-specific amendments clarifying that ISSA (NZ) 5000 applies to all sustainability assurance engagements, including limited and reasonable assurance. The additional scope clarification helps delineate ISSA (NZ) 5000 from NZ SAE 1. Toitū also supports the inclusion of requirements addressing relationships and independence.	Yes

Consultation Question	Toitu Response	Support
Q4: Do you agree with the proposal to adopt the IESSA (NZ) in New Zealand?	Toitū recognises the importance of ethical and independence standards for sustainability assurance engagements and supports the adoption of IESSA (NZ) as part of international and local alignment. However, Toitū notes that IESSA (NZ) introduces requirements beyond those currently embedded in ISO 14065/17029 accreditation systems. We request that the XRB provide transition support and mapping guidance between IESSA (NZ) and ISO impartiality/competence standards to enable verification bodies to adapt without duplicating controls or compromising existing accreditation systems.	Yes
Q5: Is your firm intending to transition to the IESSA (NZ) for sustainability assurance engagements? If yes, when?	Toitū's current system of independence and ethics is based on ISO 14065, ISO 17029, ISO 14066, and JAS-ANZ accreditation requirements as well as the requirements of NZSAE1. Transitioning to IESSA (NZ) would require reconfiguring policies and procedures to meet PES-based definitions as well as creating new ones. We would need time to implement the changes and provide updated training. We anticipate performing this transition during 2026–2027, aiming for readiness in line with our readiness for ISSA 5000, with full implementation before 1 July 2028 (for value-chain component independence provisions).	Yes
Q6: Do you agree with the proposed New Zealand changes to IESSA (NZ): (a) to clarify the scope; and (b) to replicate amendments in PES 1? Are there any other matters that you	Toitū agrees with the proposed changes clarifying scope and aligning with PES 1. The deferred effective date for value-chain component independence is practical. However, we recommend the XRB provide detailed examples of "value-chain component practitioners" and guidance on assessing independence when relying on external verifiers within complex supply chains.	Yes

Consultation Question	Toitu Response	Support
recommend the XRB add to IESSA (NZ)?	With smaller verification firms assuring parts of the value chain, we suggest acknowledging that ISO-verification bodies already meet impartiality and conflict of interest requirements, (however this may not be at the level required in the IESSA) and request review and guidance on how these verifiers could be verified within the context of these requirements.	
Q7: Do you agree with the proposal to adopt the Revisions to the Code Addressing Using the Work of an External Expert in New Zealand?	Toitū supports adoption of the new section on using the work of external experts, as it formalises a robust approach to competence, capabilities, and objectivity—principles already embedded in ISO 14064-3 and ISO 14066. We request clarification that competence evaluation can rely on existing ISO 14066 evidence. Implementation guidance would be helpful to avoid duplication for ISO-verification bodies who already assess and document expert competence and impartiality.	Yes
Q8: Are there any New Zealand changes that you recommend the XRB add to the standard Addressing Using the Work of an External Expert?	We suggest adding guidance to explicitly recognise accredited laboratories, certification bodies, and registries as qualified external experts where they operate under ISO standards, or equivalent accreditation. This recognition would support interoperability between ISO-based systems and sustainability assurance engagements under IESSA or ISSA (NZ) 5000, maintaining consistency across the verification ecosystem.	Yes
Q9: Do you support adding a third option to NZ SAE 1 to enable assurance practitioners to apply ISSA (NZ) 5000 for mandatory GHG assurance engagements?	Toitū supports adding ISSA (NZ) 5000 as a third option within NZ SAE 1, as it enhances flexibility for practitioners and aligns New Zealand with international assurance trends. Maintaining ISO 14064-3 and ISAE (NZ) 3410 as parallel options is essential to accommodate both accredited verification bodies and financial assurance practitioners.	Yes

Consultation Question	Toitu Response	Support
Q10: Do you support the proposed conditional requirement for one-to-many reports being added to NZ SAE 1?	Toitū supports the proposed NZ SAE 1 paragraph 26A on "one-to-many" reports, as it strengthens reliability where reliance is placed on another verifier's assurance report (e.g., supply chain verifications). However, we request that the XRB issue practical examples or evaluation criteria defining what constitutes "adequate procedures" and an "acceptable standard" for these relied-upon reports. ISO 14065/17029-verification bodies should be explicitly recognised as meeting adequacy thresholds to avoid inconsistency between global and NZ frameworks.	Yes
Q11: Do you agree that the XRB should defer any decision to withdraw ISAE (NZ) 3410 to a later date?	We have no comment or view.	
Q12: Do you agree with the proposed application date for assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026?	Toitū agrees with the proposed application date and welcomes the allowance for early adoption. The timeline aligns with international effective dates. We request the XRB provide transition guidance and NZ illustrative reporting examples to help ISO-accredited providers to transition to ISSA (NZ) 5000 assurance reports.	Yes
Q13: Do you have any further comments?	No	

Note for the NZAuASB:

All changes made to ISSA (NZ) 5000 since the exposure drafts (**ED**) are in tracked changes.

We have removed the conforming amendments and included these in a separate amending standard that is included in this pack. From the ED we have

* updated the wording on the front cover in line with current secondary legislation drafting practice

* moved (and updated) the copyright page and history of amendments table to the explanatory notes section at the back of this standard.
* updated the conformity statement

* added a table of minimum legislative information

This secondary legislation is administered by the External Reporting Board.
For more information please see:
Website: www.xrb.govt.nz
Contact phone: +64 4 550 2030
Contact address: Level 6/154 Featherston St, Wellington, 6011

There is an explanatory note at the end of this standard that sets out how and from when this standard operates.

International Standard on Sustainability Assurance (New Zealand) 5000 *General Requirements for Sustainability Assurance Engagements*

This Standard is made under section 12(b) of the Financial Reporting Act 2013 by the External Reporting Board after complying with section 22 of that Act.

CONTENTS

	Paragraph
Title	**0.1**
Commencement	**0.2**
Interpretation	**0.3**
Application	**0.4-0.5**
Transitional, savings, and related provisions	**0.6**
Introduction	1–7
Scope of this ISSA (NZ)	8–14
Effective Date	15
Objectives	16–17
Definitions	18
Requirements	
Conduct of an Assurance Engagement in Accordance with the ISSAs (NZ)	19–25
Acceptance and Continuance of the Assurance Engagement	26–29
Firm-level Quality Management	30
Engagement-level Quality Management	31–63
Fraud and Non-Compliance with Laws and Regulations	64–67
Communication with Management and Those Charged with Governance	68
Documentation	69–74
Preconditions for an Assurance Engagement	75–84
Terms of the Assurance Engagement	85–88
Evidence	89–94

Planning 95–102

Risk Assessment Procedures 103L–125

Responding to Risks of Material Misstatement 126L–152

Accumulation and Consideration of Identified Misstatements 153–161

Evaluating the Description of Applicable Criteria 162

Subsequent Events 163–164

Written Representations from Management and Those Charged with Governance 165–170

Other Information 171–177

Forming the Assurance Conclusion 178–187

Preparing the Assurance Report 188–212

Application and Other Explanatory Material

Introduction A1–A11

Scope of this ISSA (NZ) A12–A15

Definitions A16R–A46

Conduct of an Assurance Engagement in Accordance with the ISSAs (NZ) A47–A57

Acceptance and Continuance of the Assurance Engagement A58–A67

Firm-level Quality Management A68–A74

Engagement-level Quality Management A75–A161

Fraud and Non-Compliance with Laws and Regulations A162–A165

Communication with Management and Those Charged with Governance A166–A170

Documentation A171–A183

Preconditions for an Assurance Engagement A184–A218

Terms of the Assurance Engagement A219–A224

Evidence A225–A276

Planning A277–A312

Risk Assessment Procedures A313–A419

Responding to Risks of Material Misstatement A420–A469R

Accumulation and Consideration of Identified Misstatements A470–A498

Evaluating the Description of Applicable Criteria A499–A501

Subsequent Events A502–A505

Written Representations from Management and Those Charged with Governance A506–A507

Other Information A508–A518

Forming the Assurance Conclusion A519–A536

Preparing the Assurance Report A537–A602

Appendix 1: Sustainability Matters and Sustainability Information

Appendix 2: The Practitioner's Consideration of the Entity's Process to Identify Sustainability Information to be Reported

Appendix 3: Illustrations of Assurance Reports on Sustainability Information

Schedule 1

Title

0.1 This is the International Standard on Sustainability Assurance (New Zealand) 5000 *General Requirements for Sustainability Assurance Engagements*.

Commencement

0.2 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019 (see section 27 of the Financial Reporting Act 2013).

This note is not part of the standard.
This standard was published on 18 December 2025 and takes effect on 15 January 2026.

Interpretation

0.3 In this standard ISSA (NZ) 5000 means the International Standard on Sustainability Assurance (New Zealand) 5000 *General Requirements for Sustainability Assurance Engagements*.

Application

0.4 The accounting periods in relation to which this standard commences to apply are:

(a) for an **early adopter**, those accounting periods, following and including, the **early adoption accounting period**.

(b) for any other assurance practitioner, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

0.5 In paragraph 0.4:

early adopter means an assurance practitioner that applies this standard for an early adoption accounting period.

early adoption accounting period means the accounting period:

(a) that begins before the mandatory date but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and

(b) for which the early adopter:

i. first applies this standard for an assurance engagement and

ii. discloses in the assurance report for that accounting period that this standard has been applied for that period.

mandatory date means 15 December 2026.

Transitional, savings, and related provisions

0.6 The transitional, savings, and related provisions (if any) set out in Schedule 1 have effect according to their terms.

Introduction

1. This International Standard on Sustainability Assurance (New Zealand) (ISSA (NZ)) deals with assurance

engagements on sustainability information.

2. For purposes of this ISSA (NZ), sustainability information is information about sustainability matters. An entity's disclosures about such matters may relate to several different topics (e.g., climate, labour practices, biodiversity) and aspects of topics (e.g., risks and opportunities, metrics and key performance indicators). Law or regulation or sustainability reporting frameworks may describe sustainability matters, topics or aspects of topics in different ways, and may also provide requirements or guidance for the entity in determining the sustainability information to be reported. (Ref: Para. A1, A21–A22, A43, Appendix 1)

3. Sustainability information is reported in accordance with the criteria. This ISSA (NZ) requires the practitioner to evaluate whether the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances. In the absence of indications to the contrary, framework criteria that are embodied in law or regulation or are established by authorised or recognised organisations that follow a transparent due process are presumed to be suitable. (Ref: Para. A2, A197)

4. The criteria may specify a process by which the entity identifies sustainability matters to be reported, including the application of materiality in identifying such matters and the reporting boundary. In this ISSA (NZ), "the entity's process to identify sustainability information to be reported" refers to the process applied by the entity to determine the sustainability matters to be reported in the sustainability information and the reporting boundary. (Ref: Para. A3)

5. The scope of the assurance engagement may extend to all of the sustainability information to be reported by the entity or only part of that information. For example, some jurisdictions may require the entirety of the sustainability information to be reported in accordance with an established framework to be subject to assurance. However, in certain jurisdictions, law or regulation may require that only climate-related disclosures in an entity's sustainability information be subject to assurance. The reporting requirements of this ISSA (NZ) require the practitioner to identify or describe the information that is subject to the assurance engagement. (Ref: Para. A4)

6. This ISSA (NZ) is premised on the basis that: (Ref: Para. A5)

   (a) The members of the engagement team and the engagement quality reviewer (for those engagements where one has been appointed) are subject to the provisions of the Professional and Ethical Standard 1[1] related to sustainability assurance engagements, or professional requirements, or requirements in law or regulation, that are at least as demanding; and (Ref: Para. A6–A7)

   (b) The practitioner who is performing the engagement is a member of a firm that is subject to Professional and Ethical Standard 3,[2] or professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality management, that are at least as demanding as Professional and Ethical Standard 3. (Ref: Para. A8–A11)

7. Quality management within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognised as being in the public interest and an integral part of high-quality assurance engagements. When a practitioner performs a sustainability assurance engagement in accordance with this and other ISSAs (NZ), it is important to recognise that this ISSA (NZ) includes requirements that reflect the premises described in paragraph 6. (Ref: Para. A5–A11)

NZ7.1. In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the sustainability information that is subject to mandatory assurance. In these cases the process of reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the practitioner shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well

[1] Professional and Ethical Standard International Standard 1 *Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

[2] Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both.

Scope of this ISSA (NZ)

8. This ISSA (NZ) applies to all assurance engagements on sustainability information. It applies to all types of sustainability information, regardless of how that information is presented. (Ref: Para. A12–A14)

~~NZ8.1 The practitioner shall apply New Zealand Standard on Assurance Engagements 1[3] when conducting an assurance engagement for the disclosures within the climate statements relating to Greenhouse Gas emissions required by the Financial Markets Conduct Act 2013 to be the subject of an assurance engagement.~~

9. This ISSA (NZ) deals with both reasonable and limited assurance engagements. Unless otherwise stated, each requirement of this ISSA (NZ) applies to both reasonable and limited assurance engagements. Because the level of assurance obtained in a limited assurance engagement is substantially lower than in a reasonable assurance engagement, the procedures the practitioner will perform in a limited assurance engagement will vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. (Ref: Para. A15)

10. The *EG Au1A Framework for Assurance Engagements* notes that an assurance engagement may be either an attestation engagement or a direct engagement. This ISSA (NZ) deals only with attestation engagements. Therefore, references in this ISSA (NZ) to "assurance engagement" or "engagement" mean an attestation engagement.

Relationship with ISAE (NZ) 3000 (Revised)[4]

11. This ISSA (NZ) is an overarching standard that includes requirements and application material for all elements of a sustainability assurance engagement. Accordingly, the practitioner is not required to apply ISAE (NZ) 3000 (Revised) when performing the engagement.

Relationship with the Audited Financial Statements

12. This ISSA (NZ) does not address sustainability information that is required to be included in the entity's financial statements in accordance with the applicable financial reporting framework. The auditor of the entity's financial statements is required to apply the International Standards on Auditing (New Zealand) to such information.

13. Sustainability information may be presented together with the entity's audited financial statements, for example, as a part of the entity's annual report or in a separate document or documents accompanying the annual report. In these circumstances, the audited financial statements are considered other information for purposes of this ISSA (NZ).

Scalability

14. This ISSA (NZ) is intended for assurance engagements on sustainability information of all entities, regardless of size or complexity. However, the requirements of this ISSA (NZ) are intended to be applied in the context of the nature and circumstances of the engagement.

~~[3] New Zealand Standard on Assurance Engagements (NZ SAE) 1, *Assurance Engagements over Greenhouse Gas Emissions Disclosures*~~

[4] International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

Effective Date

15. [Deleted by NZAuASB, refer to Commencement and Application ~~section on page 6~~].

Objectives

16. In conducting a sustainability assurance engagement, the objectives of the practitioner are:

    (a) To obtain reasonable assurance or limited assurance, as applicable, about whether the sustainability information is free from material misstatement;

    (b) To express a conclusion on the sustainability information through a written report that conveys a reasonable assurance or a limited assurance conclusion, as applicable, and describes the basis for the conclusion; and

    (c) To communicate further as required by this ISSA (NZ) and any other relevant ISSA (NZ).

17. In all cases when reasonable assurance or limited assurance, as applicable, cannot be obtained and a qualified conclusion in the practitioner's assurance report is insufficient in the circumstances for purposes of reporting to the intended users, this ISSA (NZ) requires the practitioner to disclaim a conclusion or withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

Definitions

18. For purposes of the ISSAs (NZ), the following terms have the meanings attributed below:

Analytical procedures	Evaluations of sustainability information through analysis of plausible relationships among both quantitative and qualitative data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
Another practitioner	A firm, other than the practitioner's firm, that performs work that the practitioner intends to use for purposes of the sustainability assurance engagement and the practitioner is unable to be sufficiently and appropriately involved in that work. For purposes of the ISSAs (NZ): (a) The work of another practitioner that the practitioner may intend to use for purposes of the sustainability assurance engagement is performed in the context of a separate engagement. (b) Individuals from another practitioner who perform the work are not members of the engagement team as they are not performing procedures on the sustainability assurance engagement. Such individuals are also not practitioner's experts. (c) References to using the work of another practitioner include, when applicable, work performed by individuals from that other firm.
Applicable criteria	The criteria used for the particular sustainability assurance engagement.
Appropriate party(ies)	Management or those charged with governance, as appropriate, or the engaging party, if different.
Assertions	Representations by the entity, explicit or otherwise, that are embodied in the sustainability information, as used by the practitioner to consider the different types of potential misstatements that may occur. (Ref: Para. A16R)

Assurance engagement	An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the sustainability information. Each assurance engagement is either a: (a) Reasonable assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation, including presentation and disclosure, of the sustainability matters against the applicable criteria; or (b) Limited assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the sustainability information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgement, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential.
Assurance skills and techniques	Planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner that are distinct from the expertise in sustainability matters or their evaluation or measurement.
Attestation engagement	An assurance engagement in which a party other than the practitioner measures or evaluates the sustainability matters against the applicable criteria.
Comparative information	The sustainability information presented for one or more prior periods.
Component	An entity, business unit, function or business activity, or some combination thereof, within the reporting boundary, determined by the practitioner for purposes of planning and performing the sustainability assurance engagement. (Ref: Para. A17)
Component practitioner	A firm that performs assurance work related to a component for purposes of the sustainability assurance engagement, and the practitioner is able to be sufficiently and appropriately involved in that work. References to a component practitioner include, when applicable, individuals from that firm. The individuals from a component practitioner who perform the work are members of the engagement team. (Ref: Para. A18–A19)
Criteria	The benchmarks used to measure or evaluate the sustainability matters. Criteria comprise either framework criteria, entity-developed criteria or both. Framework

	criteria are either fair presentation criteria or compliance criteria. (Ref: Para. A20, A195) The term "fair presentation criteria" is used to refer to a sustainability reporting framework that requires compliance with the requirements of the framework and: (Ref: Para. A528–A529) (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the sustainability information, it may be necessary for management to provide information beyond that specifically required by the framework; or (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the sustainability information. Such departures are expected to be necessary only in extremely rare circumstances. The term "compliance criteria" is used to refer to a sustainability reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgments in (a) or (b) above.
Disclosure(s)	Sustainability information about an aspect of a topic. (Ref: Para. A21–A22)
Engagement circumstances	The broad context defining the particular assurance engagement, which includes: the terms of the engagement; the scope of the engagement and whether it is a reasonable assurance engagement or a limited assurance engagement; the characteristics of the sustainability matters; the applicable criteria; the information needs of the intended users; relevant characteristics of the entity and its reporting boundary; the characteristics of the entity's management and those charged with governance; and other matters that may have a significant effect on the engagement.
Engagement leader	The partner or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the assurance report that is issued on behalf of the firm, and who, when required, has the appropriate authority from a professional, legal or regulatory body. "Engagement leader" should be read as referring to its public sector equivalents where relevant. (Ref: Para. A23–A24)
Engagement risk	The risk that the practitioner expresses an inappropriate conclusion when the sustainability information is materially misstated. (Ref: Para. A25–A27R)
Engaging party	Management, those charged with governance, or another party, that engages the practitioner to perform the assurance engagement.
Engagement quality review	An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the assurance report.
Engagement quality reviewer	A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
Engagement team	The engagement leader and other personnel performing the engagement, and any other individuals who perform procedures on the engagement, excluding a practitioner's external expert and internal auditors who provide direct assistance on the engagement. (Ref: Para. A28–A29)

Entity	The legal entity, economic entity, or the identifiable portion of a legal or economic entity, or combination of legal or other entities or portions of those entities, to which the sustainability information relates. (Ref: Para. A30)
Evidence	Information, after applying assurance procedures, that the practitioner uses to draw conclusions that form the basis for the practitioner's assurance conclusion and report. Sufficiency of evidence is the measure of the quantity of evidence. Appropriateness of evidence is the measure of the quality of evidence.
Firm	A sole practitioner, partnership or corporation or other entity of individual practitioners. "Firm" should be read as referring to its public sector equivalents where relevant. (Ref: Para. A31)
Fraud	An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. (Ref: Para. A32–A33)
Further procedures	Procedures, including tests of controls and substantive procedures, performed in response to assessed risks of material misstatement.
Group	A reporting entity for which group sustainability information is prepared. (Ref: Para. A34)
Group sustainability assurance engagement	An assurance engagement on group sustainability information.
Group sustainability information	Sustainability information that includes the sustainability information of more than one entity or business unit in accordance with the criteria. (Ref: Para. A35)
Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods, or about economic conditions or circumstances at points in time in the past.
Intended users	The individual(s) or organisation(s), or group(s) thereof, that the practitioner expects will use the sustainability assurance report. In some cases, there may be intended users other than those to whom the sustainability assurance report is addressed. (Ref: Para. A36–A38)
Internal audit function	A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.
Management	The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner–manager.
Management's expert	An individual or organisation possessing expertise in a field other than assurance, whose work in that field is used by the entity to assist the entity in preparing the sustainability information.

Misstatement	A difference between the disclosure(s) and the appropriate measurement or evaluation of the sustainability matters in accordance with the applicable criteria. Misstatements can arise from error or fraud, may be qualitative or quantitative, and include omitted information or information that obscures the presentation of the disclosures. (Ref: Para. A417, A473, A479)
Misstatement of the other information	A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information).
Network	A larger structure: (a) That is aimed at cooperation, and (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
Network firm	A firm or entity that belongs to the firm's network.
Non-compliance with laws and regulations	Acts of omission or commission, intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct unrelated to the business activities of the entity.
Other information	Information not subject to the assurance engagement included in a document or documents containing the sustainability information subject to the assurance engagement and the assurance report thereon.
Partner	Any individual with authority to bind the firm with respect to the performance of a professional services engagement. (Ref: Para. A39)
Performance materiality	The amount or amounts set by the practitioner at less than the amount or amounts determined to be material for a quantitative disclosure to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in that disclosure is material.
Personnel	Partners and staff in the firm.
Practitioner	The individual(s) conducting the engagement (usually the engagement leader or other members of the engagement team, or, as applicable, the firm). Where this ISSA (NZ) expressly intends that a requirement or responsibility be fulfilled by the engagement leader, the term "engagement leader" rather than "practitioner" is used.
Practitioner's expert	An individual or organisation possessing expertise in a field other than assurance, whose work in that field is used by the practitioner to assist in obtaining sufficient appropriate evidence. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm), or a practitioner's external expert.

Professional judgement	The application of relevant training, knowledge, and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.
Professional scepticism	An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.
Professional standards	International Standards on Sustainability Assurance (New Zealand) (ISSAs (NZ)) and relevant ethical requirements.
Relevant ethical requirements	Principles of professional ethics and ethical requirements that are applicable to practitioners when undertaking assurance engagements on sustainability information. Relevant ethical requirements comprise the provisions of Professional and Ethical Standard 1 related to sustainability assurance engagements, together with national requirements that are more restrictive, or professional requirements or requirements in law or regulation that an appropriate authority has determined to be at least as demanding as the provisions of Professional and Ethical Standard 1 related to sustainability assurance engagements. (Ref: Para. A62–A63)
Reporting boundary	Activities, operations, relationships or resources to be included in the entity's sustainability information. For purposes of the ISSAs (NZ), the reporting boundary is determined in accordance with the applicable criteria. (Ref: Para. A40–A41)
Risk of material misstatement	The risk that the sustainability information is materially misstated prior to the engagement.
Risk assessment procedures	The procedures designed and performed to: (a) In a limited assurance engagement, identify and assess the risks of material misstatement, whether due to fraud or error, at the disclosure level; and (b) In a reasonable assurance engagement, identify and assess the risks of material misstatement, whether due to fraud or error, of the disclosures at the assertion level.
Staff	Professionals, other than partners, including any experts the firm employs.
Substantive procedures	Procedures designed to detect material misstatements. Substantive procedures comprise tests of details and analytical procedures. (Ref: Para. A42)
Sustainability competence	Competence in the sustainability matters that are the subject of the sustainability assurance engagement and in their measurement or evaluation.
Sustainability information	Sustainability information – Information about sustainability matters. (Ref: Para. A43) For purposes of the ISSAs (NZ): (a) Sustainability information results from measuring or evaluating sustainability matters against the criteria.

	(b) Sustainability information that is the subject of the assurance engagement is the equivalent of "subject matter information" in other XRB assurance standards. (c) References to "sustainability information to be reported" are intended to relate to the entirety of the sustainability information to be reported by the entity, and are used primarily in the context of the practitioner's preliminary knowledge of the engagement circumstances. (d) If the assurance engagement does not cover the entirety of the sustainability information reported by the entity, the term "sustainability information" is to be read as the information that is subject to assurance. (Ref: Para. A44)
Sustainability matters	Environmental, social, governance or other sustainability-related matters as defined or described in law or regulation or relevant sustainability reporting frameworks, or as determined by the entity for purposes of preparing or presenting sustainability information. For purposes of the ISSAs (NZ), sustainability matters being measured or evaluated in accordance with the criteria are the equivalent of "underlying subject matter" in other XRB assurance standards. (Ref: Para. A45–A46)
System of internal control	The system designed, implemented and maintained by those charged with governance, management and other entity personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to sustainable business activities and the reliability of sustainability reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations related to sustainability matters. The term "controls" refers to policies or procedures that an entity establishes to achieve the control objectives of management or those charged with governance, relating to any aspects of one or more of the components of the system of internal control.
Those charged with governance	The person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the sustainability reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner–manager.
Uncorrected misstatements	Misstatements that the practitioner has accumulated during the assurance engagement and that have not been corrected.

Requirements

Conduct of an Assurance Engagement in Accordance with the ISSAs (NZ)

Complying with Standards that Are Relevant to the Engagement

19. The practitioner shall comply with this ISSA (NZ) and any other ISSAs (NZ) relevant to the engagement. (Ref: Para. A47)

20. The practitioner shall not represent compliance with this or any other ISSAs (NZ) unless the practitioner has complied with the requirements of this ISSA (NZ) and any other ISSAs (NZ) relevant to the engagement. (Ref:

Para. A47–A48)

Text of an ISSA (NZ)

21. The practitioner shall have an understanding of the entire text of an ISSA (NZ), including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A49–A54)

Complying with Relevant Requirements

22. The practitioner shall comply with each requirement of this ISSA (NZ) and any other relevant ISSAs (NZ) unless, in the circumstances of the assurance engagement, the requirement is not relevant because it is conditional and the condition does not exist. Requirements that apply to only limited assurance or reasonable assurance engagements have the letter "L" (limited assurance) or "R" (reasonable assurance), respectively, after the paragraph number. When a requirement applies to both limited and reasonable engagements, but in a differential manner, such requirements have been presented in a columnar format with the "L" (limited assurance) and "R" (reasonable assurance) designations. (Ref: Para. A55)

23. In exceptional circumstances, the practitioner may judge it necessary to depart from a relevant requirement in an ISSA (NZ). In such circumstances, the practitioner shall perform alternative procedures to achieve the aim of that requirement. The need for the practitioner to depart from a relevant requirement is expected to arise only when the requirement is for a specific procedure to be performed and, in the specific circumstances of the assurance engagement, that procedure would be ineffective in achieving the aim of the requirement. (Ref: Para. A56)

Documentation of a Departure from a Relevant Requirement

24. If, in exceptional circumstances, the practitioner judges it necessary to depart from a relevant requirement in this ISSA (NZ) or any other ISSAs (NZ), the practitioner shall document how the alternative procedures performed achieve the aim of that requirement, and the reasons for the departure. (Ref: Para. A57)

Failure to Achieve an Objective

25. If an objective in this ISSA (NZ) or any other ISSAs (NZ) relevant to the engagement cannot be achieved, the practitioner shall evaluate whether this requires the practitioner to modify the practitioner's conclusion or withdraw from the assurance engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective in this or any other relevant ISSA (NZ) represents a significant matter requiring documentation in accordance with paragraph 69.

Acceptance and Continuance of the Assurance Engagement

26. The practitioner shall accept or continue the engagement only when:

    (a) The practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied; (Ref: Para. A58–A64)

    (b) The practitioner has determined that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, including having sufficient time, to perform the engagement; and

    (c) The basis upon which the engagement is to be performed has been agreed, by:

        (i) Establishing that the preconditions for an assurance engagement are present (see also paragraph 76); and

        (ii) Confirming that there is a common understanding between the practitioner and the engaging party of the terms of the engagement, including the practitioner's reporting responsibilities (see also paragraph 85).

27. If the engaging party imposes a limitation on the scope of the practitioner's work in the terms of a proposed engagement such that the practitioner believes the limitation will result in the practitioner disclaiming a conclusion

on the sustainability information, the practitioner shall not accept such an engagement as an assurance engagement, unless required by law or regulation to do so.

28. The engagement leader shall determine that the firm's policies or procedures for the acceptance and continuance of client relationships and assurance engagements have been followed and that conclusions reached in this regard are appropriate in accepting the engagement in accordance with paragraph 26. (Ref: Para. A65–A67)

29. If the engagement leader obtains information that may have caused the firm to decline the engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement leader shall communicate that information promptly to the firm, so that the firm and the engagement leader can take the necessary action.

Firm-level Quality Management

30. The engagement leader shall be a member of a firm that applies: (Ref: Para. A68–A72)

    (a) Professional and Ethical Standard 3; or

    (b) Professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be at least as demanding as Professional and Ethical Standard 3. (Ref: Para. A73–A74)

Engagement-level Quality Management

Overall Responsibility for Managing and Achieving Quality

31. The engagement leader shall take overall responsibility for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement such that the engagement leader has the basis for determining whether the significant judgements made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. (Ref: Para. A75–A79)

32. If the engagement leader assigns the design or performance of procedures, tasks or actions related to a requirement of this ISSA (NZ) to other members of the engagement team to assist the engagement leader in complying with the requirements of this ISSA (NZ), the engagement leader shall continue to take overall responsibility for managing and achieving quality on the engagement through direction and supervision of those members of the engagement team, and review of their work. (Ref: Para. A80)

Characteristics of the Engagement Leader

33. The engagement leader shall have: (Ref: Para. A81–A83)

    (a) Competence and capabilities in assurance skills and techniques developed through extensive training and practical application;

    (b) An understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the assurance engagement; and

    (c) Sustainability competence sufficient to accept responsibility for the conclusions reached on the engagement.

Relevant Ethical Requirements, Including Those Related to Independence

34. The practitioner shall comply with relevant ethical requirements, including those related to independence, that comprise: (Ref: Para. A58–A61, A64)

    (a) The provisions of the Professional and Ethical Standard 1 related to sustainability assurance engagements, together with national requirements that are more restrictive; or

    (b) Professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be at least as demanding as the provisions of the Professional and Ethical Standard 1related to sustainability assurance engagements. (Ref: Para: A62–A63)

35. The engagement leader shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the engagement, and the firm's related policies or procedures, including those that address: (Ref: Para. A84–A85)

    (a) Identifying, evaluating and addressing threats to compliance with relevant ethical requirements, including those related to independence;

    (b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches; and

    (c) The responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations by the entity.

36. If matters come to the engagement leader's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement leader shall evaluate the threat through complying with the firm's policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action. (Ref: Para. A85–A86)

37. Throughout the engagement, the engagement leader shall remain alert, through observation and making enquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team. If matters come to the engagement leader's attention through the firm's system of quality management or otherwise that indicate that members of the engagement team have breached relevant ethical requirements, the engagement leader, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A86)

Assurance Skills and Techniques, Professional Scepticism and Professional Judgement

38. The practitioner shall apply assurance skills and techniques as part of an iterative, systematic engagement process.

39. The practitioner shall plan and perform the engagement with professional scepticism, recognising that circumstances may exist that cause the sustainability information to be materially misstated. (Ref: Para. A87–A92)

40. The practitioner shall exercise professional judgement in planning and performing the engagement, including determining the nature, timing and extent of procedures. (Ref: Para. A93–A95)

Engagement Resources

41. The engagement leader shall determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: Para. A96–A97)

42. The engagement leader shall determine that members of the engagement team, and any practitioner's external experts and internal auditors who provide direct assistance, collectively have the appropriate sustainability competence, competence and capabilities in assurance skills and techniques, and sufficient time, to perform the engagement. (Ref: Para. A98–A102)

43. If the practitioner intends to obtain evidence from using the work of a firm other than the practitioner's firm, the engagement leader shall determine whether the engagement leader will be able to be sufficiently and appropriately involved in such work. When the engagement leader: (Ref: Para. A103–A106)

    (a) Is able to be sufficiently and appropriately involved in that work, that firm is a component practitioner and the individuals performing the work are part of the engagement team. In such circumstances, the practitioner shall apply paragraphs 46–49 with respect to that work;

    (b) Is unable to be sufficiently and appropriately involved in that work, that firm is another practitioner, and the practitioner shall apply paragraphs 50–55 with respect to that work.

44. If, as a result of complying with the requirements in paragraphs 41–43, the engagement leader determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement, the engagement leader shall take appropriate action, including communicating with appropriate individuals in the firm about the need to assign or make available additional or alternative resources to the engagement. (Ref: Para. A107–A109)

45. The engagement leader shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the engagement. (Ref: Para. A110)

Direction, Supervision and Review

46. The engagement leader shall take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: Para. A111–A116)

47. The engagement leader shall determine that the nature, timing and extent of direction, supervision and review is: (Ref: Para. A117–A118)

    (a) Planned and performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements; and

    (b) Responsive to the nature and circumstances of the engagement and the resources assigned or made available to the engagement team by the firm.

48. The engagement leader shall review engagement documentation at appropriate points in time during the engagement, including documentation relating to: (Ref: Para. A119–A121, A173)

    (a) Significant matters;

    (b) Significant judgements, including those relating to difficult or contentious matters identified during the engagement, and the conclusions reached; and

    (c) Other matters that, in the engagement leader's professional judgement, are relevant to the engagement leader's responsibilities.

49. The engagement leader shall review, prior to their issuance, formal written communications to management, those charged with governance or regulatory authorities. (Ref: Para. A122)

Using the Work of Others

Using the Work of Another Practitioner

50. If the practitioner intends to obtain evidence from using the work of another practitioner, the practitioner shall: (Ref: Para. A123–A124)

    (a) Comply with relevant ethical requirements that apply to using the work of another practitioner; (Ref: Para. A125–A126)

    (b) Evaluate whether that practitioner has the necessary competence and capabilities for the practitioner's purposes; (Ref: Para. A127)

    (c) Evaluate whether the nature, scope and objectives of that practitioner's work are appropriate for the practitioner's purposes; and (Ref: Para. A128)

    (d) Determine whether the evidence obtained from that practitioner's work is adequate for the practitioner's purposes. (Ref: Para. A124)

51. In making the evaluation in accordance with paragraph 50(c) and determination in accordance with paragraph 50(d), if the practitioner plans to use an assurance report of another practitioner that has been designed for use by user entities and their assurance practitioners across a value chain (referred to in this ISSA (NZ) as a one-to-many report), the practitioner shall determine whether that assurance report provides sufficient appropriate evidence for the practitioner's purposes by evaluating: (Ref: Para. A129–A131, A291)

(a) Whether the description of the procedures performed and the results thereof are appropriate for the practitioner's purposes; and

(b) The adequacy of the standard(s) under which the assurance report was issued.

52. If the practitioner intends to obtain evidence about the operating effectiveness of controls in accordance with paragraphs 119R or 120L, as applicable, the practitioner shall determine whether any complementary user entity controls identified in a one-to-many or other assurance report of another practitioner are relevant to the user entity. (Ref: Para: A130)

53. In making the determination in accordance with paragraph 50(d), the practitioner shall, to the extent necessary in the circumstances, communicate with another practitioner about the findings from another practitioner's work. (Ref: Para. A132–A133)

54. The practitioner shall determine whether, and the extent to which, it is necessary to review additional documentation of the work performed by another practitioner. (Ref: Para. A134)

55. If the practitioner determines that the evidence obtained from the work of another practitioner is not adequate for the practitioner's purposes, including when the practitioner is unable to obtain information to make that determination or when the practitioner is not satisfied that communications with another practitioner are adequate for the practitioner's purposes, the practitioner shall:

(a) Determine whether the practitioner is able to obtain sufficient appropriate evidence through performing alternative procedures; and

(b) If sufficient appropriate evidence cannot be obtained through performing alternative procedures, consider the implications for the engagement, including whether a scope limitation exists. (Ref: Para. A135)

Using the Work of a Practitioner's Expert

56. If the practitioner plans to use the work of a practitioner's expert, the practitioner shall: (Ref: Para. A136-A140)

(a) Evaluate whether the expert has the necessary competence, capabilities and objectivity for the practitioner's purposes; (Ref: Para. A141–A145)

(b) When evaluating the objectivity of a practitioner's external expert, enquire regarding interests and relationships that may create a threat to that expert's objectivity; (Ref: Para. A145–A147)

(c) Obtain a sufficient understanding of the field of expertise of the expert to determine the nature, scope and objectives of that expert's work for the practitioner's purposes; and (Ref: Para. A148–A149)

(d) Agree with the expert, in writing when appropriate, on:

(i) The nature, scope and objectives of that expert's work; and (Ref: Para. A149–A150)

(ii) The respective roles and responsibilities of the practitioner and that expert, including the nature, timing and extent of communication between the practitioner and expert. (Ref: Para. A138–A139)

57. The practitioner shall evaluate the adequacy of the practitioner's expert's work for the practitioner's purposes, including: (Ref: Para. A137; A151)

(a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other evidence obtained by the practitioner;

(b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and

(c) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.

58. If the practitioner determines that the work of the practitioner's expert is not adequate for the practitioner's purposes, the practitioner shall:

(a) Agree with that expert on the nature and extent of further work to be performed; or

(b) Perform additional procedures appropriate to the circumstances.

Using the Work of the Internal Audit Function

59. If the practitioner plans to use the work of the internal audit function, the practitioner shall: (Ref: Para. A152–A154)

(a) Evaluate the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors;

(b) Evaluate the level of competence of the internal audit function, including in sustainability matters and applicable criteria;

(c) Evaluate whether the internal audit function applies a systematic and disciplined approach, including a system of quality control;

(d) Determine whether, and to what extent, to use specific work of the internal audit function; and

(e) Determine whether that work is adequate for the practitioner's purposes.

Communications Among Those Involved in the Engagement

60. The engagement leader shall take responsibility for determining that communications take place at appropriate times throughout the engagement among the engagement team and, as applicable, practitioner's external experts and the internal audit function. (Ref: Para. A155–A159)

Consultation

61. The engagement leader shall take responsibility for the engagement team undertaking consultation on:

(a) Difficult or contentious matters and matters on which the firm's policies or procedures require consultation; and

(b) Other matters that, in the engagement leader's professional judgement, require consultation.

Engagement Quality Review

62. For those engagements for which an engagement quality review is required in accordance with Professional and Ethical Standard 3 or the firm's policies or procedures, the engagement leader shall discuss significant matters and significant judgements arising during the engagement, including those identified during the engagement quality review, with the engagement quality reviewer.

Monitoring and Remediation

63. The engagement leader shall: (Ref: Para. A160–A161)

(a) Consider information from the firm's monitoring and remediation process, as communicated by the firm, including, as applicable, information from the monitoring and remediation process of the network and across the network firms; and

(b) Determine whether the information may affect the engagement and, if so, take appropriate action.

Fraud and Non-Compliance with Laws and Regulations

64. The practitioner shall maintain professional scepticism throughout the engagement, recognising the possibility that a material misstatement due to fraud could exist, notwithstanding the practitioner's past experience of the honesty and integrity of the entity's management and those charged with governance. (Ref: Para. A162)

65. The practitioner shall remain alert to the possibility that procedures performed during the engagement may bring instances of non-compliance or suspected non-compliance with laws and regulations to the practitioner's attention.

66. In the absence of identified or suspected non-compliance, the practitioner is not required to perform procedures regarding the entity's compliance with laws and regulations, other than those set out in paragraphs 65 and 111–112.

67. If the practitioner identifies fraud or suspected fraud, or instances of non-compliance or suspected non-compliance with laws and regulations, the practitioner shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A163–A165, A434)

    (a) Require the practitioner to report to an appropriate authority outside the entity; or

    (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

Communication with Management and Those Charged with Governance

68. The practitioner shall communicate with management or those charged with governance, on a timely basis during the engagement, significant matters that, in the practitioner's professional judgement, merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A166–A170)

Documentation

Overarching Documentation Requirements

Form, Content and Extent of Engagement Documentation

69. The practitioner shall prepare, on a timely basis, engagement documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable a practitioner experienced in sustainability assurance, having no previous connection with the assurance engagement, to understand: (Ref: Para. A171–A173)

    (a) The nature, timing and extent of the procedures performed to comply with this ISSA (NZ), other relevant ISSAs (NZ) and applicable legal and regulatory requirements;

    (b) The results of the procedures performed, and the evidence obtained; and

    (c) Significant matters arising during the assurance engagement, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions. (Ref: Para. A174–A176)

70. In documenting the nature, timing and extent of procedures performed, the practitioner shall record: (Ref: Para. A177–A178)

    (a) The identifying characteristics of the specific items or matters tested;

    (b) Who performed the assurance engagement work and the date such work was completed; and

    (c) Who reviewed the assurance engagement work performed and the date and extent of such review.

71. The engagement documentation shall also include discussions of significant matters with management, those charged with governance and others, including the nature of the significant matters discussed, and when and with whom the discussions took place. (Ref: Para. A179)

Assembly of the Final Engagement File

72. The practitioner shall assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the assurance report. After the assembly of the final engagement file has been completed, the practitioner shall not delete or discard engagement documentation of any nature before the end of its retention period. (Ref: Para. A180–A182)

73. In circumstances other than those envisaged in paragraph 212, when the practitioner finds it necessary to modify existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed, the practitioner shall, regardless of the nature of the modifications or additions, document:

(a) The specific reasons for making them; and

(b) When and by whom they were made and reviewed.

Documentation Related to Quality Management

74. The practitioner shall include in the engagement documentation: (Ref: Para. A183)

(a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved;

(b) Conclusions about compliance with independence requirements that apply to the engagement, and any relevant discussions with the firm that support these conclusions;

(c) Conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements, including with respect to the preconditions for an assurance engagement; and

(d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

Preconditions for an Assurance Engagement

Establishing Whether the Preconditions Are Present

75. The practitioner shall obtain a preliminary knowledge of the engagement circumstances, including: (Ref: Para. A184)

(a) The sustainability information to be reported; and

(b) Whether the scope of the proposed assurance engagement encompasses all or part of the sustainability information in (a). (Ref: Para. A185)

76. In order to establish whether the preconditions for an assurance engagement are present, based on the preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies), the practitioner shall: (Ref: Para. A184, A186–A187)

(a) Consider whether the entity has a process to identify sustainability information to be reported; (Ref: Para. A187)

(b) Evaluate whether the roles and responsibilities of management, those charged with governance and the engaging party, if different, are suitable in the circumstances. In doing so, the practitioner shall also evaluate whether management, or those charged with governance, when appropriate, have a reasonable basis for the sustainability information; and (Ref: Para. A186(a), A188–A191)

(c) Evaluate whether the engagement exhibits all of the characteristics in paragraphs 77–80.

Appropriate Sustainability Matters

77. The practitioner shall evaluate whether the sustainability matters within the scope of the engagement are appropriate. In doing so, the practitioner shall consider whether those sustainability matters are identifiable and capable of consistent measurement or evaluation against the applicable criteria, such that the resulting sustainability information can be subjected to procedures for obtaining sufficient appropriate evidence. (Ref: Para. A192–A193)

Suitability and Availability of Criteria

78. The practitioner shall evaluate whether the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances and will be available to the intended users. In doing so, the practitioner shall:

(a) Evaluate whether there are criteria for all of the sustainability information subject to the assurance engagement; (Ref: Para. A194)

(b) Identify the sources of the criteria, including whether they are framework criteria, entity–developed criteria or a combination of both; (Ref: Para. A195–A198, A331)

(c) Evaluate whether the criteria exhibit the following characteristics: (Ref: Para. A199–A201, A332–A335)

(i) Relevance; (Ref: Para. A336–A337)

(ii) Completeness; (Ref: Para. A338)

(iii) Reliability; (Ref: Para. A339)

(iv) Neutrality; and (Ref: Para. A340–A341)

(v) Understandability; and (Ref: Para. A342)

(d) Evaluate whether and how the criteria will be made available to the intended users. (Ref: Para. A202)

Evidence to Support the Practitioner's Conclusion and Form of Conclusion

79. The practitioner shall determine whether

(a) The practitioner expects to be able to obtain the evidence needed to support the practitioner's conclusion; and (Ref: Para. A203–A206L)

(b) The practitioner's conclusion, in the form appropriate for the engagement, is to be contained in a written report.

Rational Purpose

80. The practitioner shall determine whether the engagement exhibits a rational purpose. In doing so, the practitioner shall determine whether: (Ref: Para. A207–A208)

(a) In the case of a limited assurance engagement, the practitioner expects to be able to obtain a meaningful level of assurance; (Ref: Para. A209L–A211L)

(b) The engagement as a whole will be useful and not misleading to intended users; and

(c) The scope of the assurance engagement is appropriate, including when the scope of the assurance engagement excludes part of the sustainability information to be reported. (Ref: Para. A212–A217)

Deciding Whether to Accept or Continue the Assurance Engagement

81. If the preconditions for an assurance engagement are not present, the practitioner shall discuss the matter with the engaging party. If changes cannot be made to meet the preconditions, the practitioner shall not accept the engagement as an assurance engagement, unless required by law or regulation to do so. However, an engagement accepted under such circumstances does not comply with this ISSA (NZ). Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with this ISSA (NZ) or any other ISSAs (NZ).

Preconditions Not Present After Acceptance

82. If it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present, the practitioner shall discuss the matter with the appropriate party(ies), and shall determine: (Ref: Para. A218)

(a) Whether the matter can be resolved to the practitioner's satisfaction;

(b) Whether it is appropriate to continue with the engagement; and

(c) Whether and, if so, how to communicate the matter in the assurance report.

83. If it is discovered after the engagement has been accepted that some or all of the applicable criteria are unsuitable or some or all of the sustainability matters are not appropriate for an assurance engagement, the practitioner shall

consider withdrawing from the engagement, if withdrawal is possible under applicable law or regulation. If the practitioner continues with the engagement, the practitioner shall express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances. (Ref: Para. A218)

Assurance Report Prescribed by Law or Regulation

84. If law or regulation prescribes the layout or wording of the assurance report that is different from the requirements of the ISSAs (NZ), the practitioner shall evaluate:

    (a) Whether intended users may misunderstand the practitioner's conclusion; and

    (b) If so, whether additional explanation in the assurance report can mitigate the possible misunderstanding.

    If the practitioner concludes that additional explanation in the assurance report cannot mitigate the possible misunderstanding, the practitioner shall not accept the assurance engagement, unless required by law or regulation to do so. An assurance engagement conducted in accordance with such law or regulation does not comply with this ISSA (NZ). Accordingly, the practitioner shall not include any reference in the assurance report to the assurance engagement having been conducted in accordance with this ISSA (NZ).

Terms of the Assurance Engagement

Agreeing the Terms of the Assurance Engagement

85. The practitioner shall agree the terms of the assurance engagement with the engaging party. The agreed terms shall be specified in sufficient detail in an engagement letter or other suitable form of written agreement, written confirmation, or in law or regulation, and shall include: (Ref: Para. A219–A222)

    (a) Matters related to the objective and scope of the assurance engagement, including:

        (i) The objective of the assurance engagement;

        (ii) The sustainability information within the scope of the assurance engagement, and the sustainability information that is not within the scope of the assurance engagement;

        (iii) The reporting boundary within the scope of the assurance engagement;

        (iv) Whether the engagement is a limited assurance engagement, reasonable assurance engagement, or a combined limited and reasonable assurance engagement and the sustainability information that is subject to each level of assurance;

        (v) The applicable criteria; and

        (vi) That the assurance engagement will be conducted in accordance with ISSA (NZ) 5000 *General Requirements for Sustainability Assurance Engagements.*

    (b) The responsibilities of the practitioner; (Ref: Para. A221)

    (c) The responsibilities of management or those charged with governance, as appropriate for:

        (i) The preparation of the sustainability information in accordance with the applicable criteria, including, where relevant, its fair presentation;

        (ii) When applicable, identifying, selecting or developing suitable criteria;

        (iii) Referring to or describing in the sustainability information, the applicable criteria it has used and, when it is not readily apparent from the engagement circumstances, who developed them;

        (iv) Designing, implementing and maintaining a system of internal control that it determines is necessary to enable the preparation of sustainability information in accordance with the applicable criteria that is free from material misstatement, whether due to fraud or error; and

        (v) Providing the practitioner with:

a. Access to all information of which management is aware that is relevant to the preparation of the sustainability information;

b. Additional information that the practitioner may request for the purpose of the assurance engagement; and

c. Unrestricted access to persons within the entity, from whom the practitioner determines it necessary to obtain evidence;

(d) Reference to the expected form and content of the report or reports to be issued by the practitioner and a statement that there may be modifications to the report in certain circumstances; and

(e) An acknowledgement that management agrees to provide written representations at the conclusion of the assurance engagement.

86. For recurring assurance engagements, the practitioner shall evaluate whether the circumstances require the terms of the assurance engagement to be revised or there is a need to remind the appropriate party(ies) of the existing terms.

Changing the Terms of the Assurance Engagement

87. The practitioner shall not agree to a change in the terms of the assurance engagement, including from a reasonable assurance engagement to a limited assurance engagement (i.e., to a lower level of assurance), when there is no reasonable justification for doing so. If the practitioner is unable to agree to a request to change in the terms of the assurance engagement and is not permitted by the appropriate party(ies) to continue the assurance engagement under the original terms, the practitioner shall: (Ref: Para. A223–A224)

(a) Withdraw from the assurance engagement, when possible under applicable law or regulation; and

(b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.

88. If the terms of the assurance engagement are changed:

(a) The practitioner and the appropriate party(ies) shall agree on and record the new terms of the assurance engagement in an engagement letter or other suitable form of written agreement; and

(b) The practitioner shall not disregard evidence that was obtained prior to the change.

Evidence

Designing and Performing Procedures to Obtain Sufficient Appropriate Evidence

89. For the purpose of obtaining sufficient appropriate evidence, the practitioner shall design and perform procedures: (Ref: Para. A225–A226)

(a) In a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory; and (Ref: Para. A227–A228)

(b) The nature, timing and extent of which are appropriate in the circumstances to provide evidence to meet the intended purpose of those procedures. (Ref: Para. A229–A244)

Information Intended to be Used as Evidence

90. When designing and performing procedures, the practitioner shall evaluate the relevance and reliability of information intended to be used as evidence, including information obtained from sources external to the entity. (Ref: Para. A245–A263)

91. When using information produced by the entity, the practitioner shall evaluate whether the information is sufficiently reliable for the practitioner's purposes, including, as necessary in the circumstances: (Ref: Para. A264–A265)

(a) Obtaining evidence about the accuracy and completeness of the information; and

(b) Evaluating whether the information is sufficiently precise and detailed for the practitioner's purposes.

Work Performed by a Management's Expert

92. If information intended to be used as evidence has been prepared by a management's expert, as part of the practitioner's evaluation in accordance with paragraph 90, the practitioner shall, to the extent necessary, having regard to the significance of that expert's work for the practitioner's purposes*:* (Ref: Para. A266)

(a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A267–A268)

(b) Obtain an understanding of the work performed by that expert; (Ref: Para. A269)

(c) Obtain an understanding about how the information prepared by that expert has been used by management in the preparation of the sustainability information; and (Ref: Para. A270–A271)

(d) Evaluate the appropriateness of the work of that expert as evidence. (Ref: Para. A272)

Doubts About the Relevance and Reliability of Information Intended to be Used as Evidence

93. If conditions identified during the assurance engagement cause the practitioner to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the practitioner, the practitioner shall investigate further and determine the effect on the rest of the evidence obtained. (Ref: Para. A273–A275)

94. If the practitioner has doubts about the relevance or reliability of information intended to be used as evidence, the practitioner shall: (Ref: Para. A276)

(a) Determine whether modifications or additions to procedures are necessary to resolve the doubts; and

(b) If the doubts cannot be resolved, consider the effect, if any, on other aspects of the engagement, including whether such doubts indicate a risk that disclosures may be materially misstated due to fraud.

Planning

Planning Activities

95. The practitioner shall develop an overall strategy and engagement plan, including determining the nature, timing and extent of planned procedures. In doing so, the engagement leader shall consider information obtained in the acceptance and continuance process and, if applicable, whether knowledge obtained on other engagements performed by the engagement leader for the entity is relevant. (Ref: Para. A277–A287)

96. For a group sustainability assurance engagement, in developing the overall strategy and engagement plan in accordance with paragraph 95, the practitioner shall determine: (Ref: Para. A284–A291)

(a) The sustainability information on which assurance work will be performed and the source of that information; (Ref: Para. A288)

(b) The resources needed to perform the engagement, including component practitioner(s); and (Ref: Para. A108, A289–A290)

(c) Whether to obtain evidence from the work performed by another practitioner(s). (Ref: Para. A291)

97. The engagement leader and other key members of the engagement team shall be involved in planning the assurance engagement, including participating in the discussion among the engagement team members required by paragraph 105.

Materiality

98. For purposes of planning and performing the assurance engagement, and evaluating whether the sustainability information is free from material misstatement, the practitioner shall: (Ref: Para. A292–A299)

(a) Consider materiality for qualitative disclosures; and (Ref: Para. A300)

(b) Determine materiality for quantitative disclosures. (Ref: Para. A301–A305)

99. If the applicable criteria require the entity to apply both financial materiality and impact materiality in preparing the sustainability information, the practitioner shall take into account both perspectives when considering or determining materiality in accordance with paragraph 98. (Ref: Para. A306, A337)

100. For quantitative disclosures, the practitioner shall determine performance materiality. (Ref: Para. A307–A311)

Revision of Materiality as the Engagement Progresses

101. The practitioner shall revise materiality for a disclosure(s) in the event of becoming aware of information during the assurance engagement that would have caused the practitioner to have considered or determined a different materiality initially. (Ref: Para. A312)

Documentation

102. The practitioner shall include in the engagement documentation:

(a) The factors relevant to the practitioner's consideration of materiality for qualitative disclosures in accordance with paragraph 98(a);

(b) The basis for the determination of materiality for quantitative disclosures, in accordance with paragraph 98(b); and

(c) The basis for the practitioner's determination of performance materiality in accordance with paragraph 100.

Risk Assessment Procedures

Designing and Performing Risk Assessment Procedures

Limited Assurance	Reasonable Assurance
103L. The practitioner shall design and perform risk assessment procedures sufficient to: (Ref: Para. A313–A318, A416L) (a) Identify and assess risks of material misstatement, whether due to fraud or error, at the disclosure level; and (b) Design and perform further procedures.	103R. The practitioner shall design and perform risk assessment procedures sufficient to: (Ref: Para. A313–A318, A415R) (a) Identify and assess risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures; and (b) Design and perform further procedures.

104. When designing and performing risk assessment procedures in accordance with paragraphs 103L and 103R, the practitioner shall consider information from the practitioner's procedures regarding acceptance and continuance of the client relationship or the sustainability assurance engagement. (Ref: Para. A319)

105. The engagement leader and other key members of the engagement team, and any key practitioner's external experts, shall discuss the susceptibility of the disclosures to material misstatement, whether due to fraud or error, and the application of the applicable criteria to the entity's facts and circumstances. The engagement leader shall determine which matters are to be communicated to members of the engagement team and to any practitioner's external experts not involved in the discussion. (Ref: Para. A320–A321)

Understanding the Sustainability Matters and the Sustainability Information

106. The practitioner shall obtain an understanding of the sustainability matters and the sustainability information, including the characteristics of events or conditions that could give rise to material misstatement of the disclosures. (Ref: Para. A322–A325)

Determining the Suitability of the Applicable Criteria

107. The practitioner shall determine whether the applicable criteria are suitable for the engagement circumstances, including that they exhibit the characteristics in paragraph 78. (Ref: Para. A199–A201, A326–A342)

Understanding the Entity's Reporting Policies

108. The practitioner shall obtain an understanding of the entity's reporting policies and the reason for any changes thereto. (Ref: Para. A2, A197, A343)

109. The practitioner shall evaluate whether the entity's reporting policies are appropriate and consistent with: (Ref: Para. A2, A343–A344)

    (a) The applicable criteria; and

    (b) Criteria used in the relevant industry.

Understanding the Entity and Its Environment

110. The practitioner shall obtain an understanding of the entity and its environment, including:

    (a) The nature of the entity's operations, legal and organisational structure, ownership and governance, and business model; (Ref: Para. A345–A346)

    (b) The reporting boundary and activities within the reporting boundary; and (Ref: Para. A347)

    (c) Goals, targets, or strategic objectives related to sustainability matters and measures used to assess the entity's performance or determine management compensation. (Ref: Para. A348)

Understanding the Legal and Regulatory Framework

111. The practitioner shall obtain an understanding of: (Ref: Para. A349–A351)

    (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, in the context of the entity's sustainability information; and

    (b) How the entity is complying with that framework.

Enquiries and Discussion with Appropriate Parties

112. The practitioner shall make enquiries of appropriate parties and, when appropriate, others within the entity regarding whether: (Ref: Para. A352–A353)

    (a) They have knowledge of any fraud or suspected fraud or identified or suspected non-compliance with laws and regulations affecting the sustainability information; and

    (b) The entity has an internal audit function and, if so, make further enquiries to obtain an understanding of the activities and main findings, if any, of the internal audit function with respect to the sustainability information.

Understanding the Components of the Entity's System of Internal Control

Limited Assurance	Reasonable Assurance
113L. The practitioner shall obtain an understanding, through enquiry, of the components of the entity's system of internal control relevant to the sustainability matters and the preparation of the sustainability information, in accordance with paragraphs 114L, 115L, 116L, 117 and 120L. (Ref: Para. A354–A359)	113R. The practitioner shall obtain an understanding, through enquiry and other procedures, of the components of the entity's system of internal control relevant to the sustainability matters and the preparation of the sustainability information, in accordance with paragraphs 114R, 115R, 116R, 117, and 119R. (Ref: Para. A354–A356, A358–A359)

The Control Environment

Limited Assurance	Reasonable Assurance
114L. The practitioner shall obtain an understanding of the entity's control environment relevant to the sustainability matters and the preparation of the sustainability information. (Ref: Para. A360, A362–A363)	114R. The practitioner shall obtain an understanding of the entity's control environment relevant to the sustainability matters and the preparation of the sustainability information, including evaluating whether: (Ref: Para. A360–A363) (a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behaviour; (b) The control environment provides an appropriate foundation for the other components of the system of internal control considering the nature and complexity of the entity; and (c) Control deficiencies identified in the control environment undermine the other components of the system of internal control.

The Entity's Risk Assessment Process

Limited Assurance	Reasonable Assurance
115L. The practitioner shall obtain an understanding of the results of the entity's risk assessment process relevant to the sustainability matters and the preparation of the sustainability information. (Ref: Para. A364, A366, A368)	115R. The practitioner shall obtain an understanding of the entity's risk assessment process relevant to the sustainability matters and the preparation of the sustainability information, including: (Ref: Para. A364–A368) (a) Understanding the entity's process for: (i) Identifying risks relevant to sustainability information reporting objectives;

	(ii) Assessing the significance of those risks, including the likelihood of their occurrence; and (iii) Addressing those risks; (b) Understanding the results of the entity's risk assessment process; and (c) Based on the understanding in (a) and (b), evaluating whether the entity's risk assessment process is appropriate to the entity's circumstances.

The Entity's Process for Monitoring the System of Internal Control

Limited Assurance	Reasonable Assurance
116L. The practitioner shall obtain an understanding of the results of the entity's process to monitor the system of internal control relevant to the sustainability matters and the preparation of the sustainability information. (Ref: Para. A369–A370)	116R. The practitioner shall: (a) Obtain an understanding of: (Ref: Para. A369–A370) (i) The entity's process to monitor the system of internal control relevant to the sustainability matters and the preparation of the sustainability information; and (ii) The results thereof; and (b) Based on this understanding, evaluate whether the entity's process to monitor the system of internal control relevant to the sustainability matters and the preparation of the sustainability information is appropriate to the entity's circumstances. (Ref: Para. A371R–A376R)

The Information System and Communication

117. The practitioner shall obtain an understanding of the entity's information system and communication relevant to the sustainability matters and the preparation of the sustainability information, including: (Ref: Para. A377–A381)

    (a) The entity's process to identify sustainability information to be reported. (Ref: Para. A382–A384)

    (b) How information from external sources, such as service organisations or other organisations in the entity's value chain, is recorded, processed, corrected as necessary, and incorporated into the sustainability information. (Ref: Para. A385)

    (c) For estimates and forward-looking information, how the entity identifies the relevant methods, assumptions or sources of data, and the need for changes in them, that are appropriate in the context of the applicable criteria.

118. Based on the practitioner's understanding of the information system and communication in accordance with paragraph 117, the practitioner shall evaluate whether the entity's information system appropriately supports the preparation of the sustainability information in accordance with the applicable criteria. (Ref: Para. A386)

Control Activities

119R. The practitioner shall obtain an understanding of control activities by identifying: (Ref: Para. A387–A392)

(a) Controls for which the practitioner plans to obtain evidence by testing their operating effectiveness, which shall include:

(i) Controls that address risks for which substantive procedures alone do not provide sufficient appropriate evidence; or

(ii) If applicable, any complementary user entity controls identified in an assurance report of another practitioner that are determined to be relevant to the user entity in accordance with paragraph 52;

(b) Based on the controls identified in (a), the IT applications and the other aspects of the entity's IT environment that are subject to risks arising from the use of IT;

(c) The entity's general IT controls that address risks arising from the use of IT identified in (b); and

(d) Other controls that the practitioner considers are appropriate to identify and assess the risks of material misstatement at the assertion level for disclosures and design further procedures responsive to those assessed risks.

Design and Implementation of Controls

Limited Assurance	**Reasonable Assurance**
120L. If the practitioner plans to obtain evidence by testing the operating effectiveness of controls, the practitioner shall obtain an understanding of: (Ref: Para. A387–A392, A399L) (a) The controls the practitioner plans to test, including if applicable, any complementary user entity controls identified in the assurance report of another practitioner that are determined to be relevant to the user entity in accordance with paragraph 52; and (b) The entity's general IT controls that address risks arising from the use of IT related to the controls identified in (a). by: (Ref: Para. A393–A398) (a) Evaluating whether the control is designed effectively to address the risk of material misstatement for the disclosure, or effectively designed to support the operation of other controls; and (b) Determining whether the control has been implemented by performing procedures in addition to enquiry of the entity's personnel.	120R. The practitioner shall obtain an understanding of each control identified in accordance with paragraph 119R(a), (c), and (d) by: (Ref: Para. A393–A398) (a) Evaluating whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and (b) Determining whether the control has been implemented by performing procedures in addition to enquiry of the entity's personnel.

Identifying Control Deficiencies

121. Based on the practitioner's understanding of the components of the entity's system of internal control, the practitioner shall consider whether one or more control deficiencies have been identified. (Ref: Para. A400–A403)

Identifying and Assessing the Risks of Material Misstatement

Limited Assurance	Reasonable Assurance
122L. The practitioner shall identify and assess the risks of material misstatement at the disclosure level as a basis for designing and performing procedures whose nature, timing and extent: (Ref: Para. A404–A414, A416L, A417) (a) Are responsive to the assessed risks of material misstatement; and (b) Allow the practitioner to obtain limited assurance about whether the sustainability information is prepared, in all material respects, in accordance with the applicable criteria.	122R. The practitioner shall identify and assess the risks of material misstatement at the assertion level for the disclosures as a basis for designing and performing procedures whose nature, timing and extent: (Ref: Para. A404–A405, A407–A408, A410–A415R, A417–A418R) (a) Are responsive to the assessed risks of material misstatement; and (b) Allow the practitioner to obtain reasonable assurance about whether the sustainability information is prepared, in all material respects, in accordance with the applicable criteria.

123R. Due to the unpredictable way in which management is able to override controls, the practitioner shall treat risks of management override of controls as risks of material misstatement due to fraud and thus risks of material misstatement at the upper end of the spectrum of risk. (Ref: Para. A418R)

Evaluating the Evidence Obtained from the Risk Assessment Procedures

124. The practitioner shall determine whether the evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the practitioner shall perform additional risk assessment procedures until evidence has been obtained to provide such a basis. (Ref: Para. A419)

Documentation

125. The practitioner shall include in the engagement documentation:

(a) The engagement team discussion in accordance with paragraph 105, and the significant decisions reached;

(b) Key elements of the practitioner's understanding, enquiries and discussion in accordance with paragraphs 106–119R;

(c) The evaluation of the design of identified controls, and determination of whether such controls have been implemented, in accordance with paragraph 120L, if applicable, and paragraph 120R; and

(d) The identified and assessed risks of material misstatement, in accordance with paragraphs 122L and 122R.

Responding to Risks of Material Misstatement

Designing and Performing Further Procedures

Limited Assurance	Reasonable Assurance
126L. The practitioner shall design and perform further procedures whose nature, timing and	126R. The practitioner shall design and perform further procedures whose nature, timing and extent are

Limited Assurance	Reasonable Assurance
extent are responsive to the assessed risks of material misstatement, whether due to fraud or error, at the disclosure level. (Ref: Para. A284–A287, A420–A424)	responsive to the assessed risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures. (Ref: Para. A284–A287, A420–A424)

127. In designing and performing further procedures, the practitioner shall: (Ref: Para. A424–A427)

(a) Consider the reasons for the assessment given to the risks of material misstatement;

(b) Consider whether the practitioner intends to obtain evidence about the operating effectiveness of controls in determining the nature, timing and extent of other procedures; and

(c) Obtain more persuasive evidence the higher the practitioner's assessment of risk.

Overall Responses

Limited Assurance	Reasonable Assurance
128L. The practitioner shall design and implement overall responses to address the risks of material misstatement if the practitioner identifies: (Ref: Para. A428–A429) (a) Control deficiencies in the control environment that undermine the other components of the system of internal control; (b) Fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations; or (c) Risks of material misstatement pervasively throughout the sustainability information.	128R. The practitioner shall design and implement overall responses to address the risks of material misstatement if: (Ref: Para. A428–A429) (a) The practitioner's evaluation of the control environment indicates that: (i) Management, with the oversight of those charged with governance, has not created and maintained a culture of honesty and ethical behaviour; (ii) The control environment does not provide an appropriate foundation for the other components of the system of internal control considering the nature and complexity of the entity; or (iii) Control deficiencies identified in the control environment undermine the other components of the system of internal control; (b) The practitioner identifies fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations; or (c) The practitioner identifies risks of material misstatement pervasively throughout the sustainability information.

Responding to Identified or Suspected Fraud or Non-Compliance with Laws and Regulations

129. The practitioner shall respond appropriately to fraud or suspected fraud, or non-compliance or suspected non-compliance with laws and regulations, identified during the engagement by obtaining: (Ref: Para. A430–A431)

(a) An understanding of the nature of the act and the circumstances in which it occurred; and

(b) Further information to evaluate the possible effect on the sustainability information.

130. If the practitioner suspects there may be instances of fraud or non-compliance with laws and regulations, the practitioner shall discuss the matter, unless prohibited by law or regulation, with the appropriate level of management and, where appropriate, those charged with governance. (Ref: Para. A432)

131. The practitioner shall evaluate the implications of identified or suspected fraud or non-compliance with laws and regulations for the assurance engagement, including the practitioner's risk assessment procedures and the reliability of written representations, and take appropriate action. (Ref: Para. A433–A435)

Tests of Controls

132. If the practitioner intends to obtain evidence about the operating effectiveness of controls identified in accordance with paragraphs 119R or 120L, the practitioner shall design and perform tests of controls by: (Ref: Para. A436–A437)

(a) Performing enquiry and other procedures to obtain evidence about the operating effectiveness of the controls, including:

(i) How the controls were applied at relevant times during the period to which the sustainability information relates;

(ii) The consistency with which they were applied; and

(iii) By whom or by what means they were applied.

(b) Determining whether the controls to be tested depend upon other controls and, if so, whether it is necessary to obtain evidence supporting the effective operation of those indirect controls.

133. The practitioner shall test controls for the appropriate period for which the practitioner intends to obtain evidence about the operating effectiveness of those controls, subject to paragraph 134.

134. If the practitioner obtains evidence about the operating effectiveness of controls during an interim period and intends to extend the conclusions of those tests of controls for the remaining period, the practitioner shall obtain evidence about the operating effectiveness of those controls for the period subsequent to the interim period.

135. If the practitioner plans to use evidence from a previous sustainability assurance engagement about the operating effectiveness of controls, the practitioner shall establish the continuing relevance of the evidence by obtaining evidence about whether significant changes in those controls have occurred subsequent to the previous engagement. The practitioner shall obtain this evidence by performing enquiry, combined with observation or inspection, to confirm the understanding of those specific controls, and (Ref: Para. A438–A439)

(a) If there have not been changes that affect the continuing relevance of the evidence from the previous engagement, the practitioner shall test the controls at least once in every third engagement, and shall test some controls in each engagement.

(b) If there have been changes that affect the continuing relevance of the evidence from the previous engagement, the practitioner shall test the controls in the current engagement.

136. If the practitioner plans to obtain evidence about the operating effectiveness of controls over a risk of material misstatement for which the assessment of risk is close to the upper end of the spectrum of risk, the practitioner shall test those controls in the current period.

137. When evaluating the operating effectiveness of controls, the practitioner shall evaluate whether misstatements detected through performing other procedures indicate that controls are not operating effectively. The absence of misstatements detected by other procedures, however, does not provide evidence that controls being tested are effective.

138. If deviations from controls that the practitioner tests are detected, the practitioner shall make specific enquiries to understand these matters and their potential consequences and shall determine whether:

(a) The tests of controls that have been performed provide sufficient appropriate evidence about the operating effectiveness of those controls;

(b) Additional tests of controls are necessary; or

(c) The potential risks of material misstatement need to be addressed by performing substantive procedures.

Substantive Procedures

139R. The further procedures required by paragraph 126R shall include substantive procedures that are responsive to each risk for which the assessment of that risk is close to the upper end of the spectrum of risk. (Ref: Para. A407)

140R. Irrespective of the assessed risks of material misstatement, the practitioner shall consider the need to design and perform substantive procedures for disclosures that, in the practitioner's judgement, are material. (Ref: Para. A440R–A441R)

141R. The practitioner shall consider whether external confirmation procedures are to be performed. (Ref: Para. A442–A443)

142. If substantive procedures are performed at an interim date and the practitioner intends to extend the conclusions of those substantive procedures for the remaining period, the practitioner shall perform: (Ref: Para. A444–A445)

(a) Substantive procedures, combined with tests of controls for the period subsequent to the interim period; or

(b) If the practitioner determines that it is sufficient, substantive procedures only that provide a reasonable basis for extending the conclusions to the period subsequent to the interim period.

Analytical Procedures

Limited Assurance	**Reasonable Assurance**
143L. If designing and performing analytical procedures, the practitioner shall: (Ref: Para. A446–A447) (a) Determine the suitability of particular analytical procedures, considering the reasons for the assessment of the risks of material misstatement at the disclosure level; and (b) Develop an expectation about recorded quantities or ratios. (Ref: Para. A448L)	143R. If designing and performing analytical procedures, the practitioner shall: (Ref: Para. A446–A447) (a) Determine the suitability of particular analytical procedures for given assertions, considering the reasons for the assessment of risks of material misstatement and evidence from other procedures, if any, for these assertions; and (b) Develop an expectation about recorded quantities or ratios that is sufficiently precise to identify possible material misstatements.
144L. If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from the expected result, the practitioner shall make enquiries of management about such differences. The practitioner shall consider the responses to these enquiries to determine whether additional procedures are necessary in the circumstances.	144R. If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected quantities or ratios, the practitioner shall investigate such differences by: (a) Enquiring of management and obtaining additional evidence relevant to management's responses; and (b) Performing other procedures as necessary in the circumstances.

Sampling

145. If the practitioner uses sampling as a means for selecting items for testing, the practitioner shall: (Ref: Para. A449)

(a) Consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn;

(b) Determine a sample size sufficient to reduce sampling risk to an appropriately low level; and

(c) Select the sample, perform procedures on the items selected, and evaluate the results.

Estimates and Forward–Looking Information

Limited Assurance	Reasonable Assurance
146L. In responding to assessed risks of material misstatement relating to disclosures involving estimates or forward-looking information the practitioner shall: (Ref: Para. A450–A452, A454–A455L) (a) Evaluate whether: (i) Management has appropriately applied the requirements of the applicable criteria relevant to estimates or forward-looking information; (ii) The methods for developing estimates or forward-looking information are appropriate and have been applied consistently; and (iii) Changes, if any, in reported estimates or forward-looking information, or changes from the prior period in the method used for developing estimates or forward-looking information, are appropriate in the circumstances; and (Ref: Para. A459) (b) Consider whether other procedures are necessary in the circumstances.	146R. In responding to assessed risks of material misstatement relating to disclosures involving estimates or forward-looking information, the practitioner shall: (Ref: Para. A450–A452, A454) (a) Evaluate whether management has appropriately applied the requirements of the applicable criteria relevant to estimates or forward-looking information; and (Ref: Para. A453R) (b) Undertake one or more of the following: (i) Test how management developed the estimate or forward-looking information and the related disclosure(s), and the information on which the estimate or forward-looking information is based. In doing so, the practitioner shall evaluate whether: a. The method has been appropriately selected and applied, and any changes from prior periods are appropriate; (Ref: Para. A456R, A459) b. The assumptions used, including any changes from prior periods, are appropriate; and (Ref: Para. A457R, A459) c. The data, including any changes from prior periods, are appropriate; (Ref: Para. A458R, A459) (ii) Develop a point estimate or a range to evaluate management's estimate. For this purpose, the practitioner shall: (Ref: Para. A460R–A462R)

Limited Assurance	Reasonable Assurance
	a. Evaluate whether the methods, assumptions or data used are appropriate in the context of the criteria; and b. When the practitioner develops a range: i. Determine that the range includes only amounts that are supported by sufficient evidence and have been evaluated by the practitioner to be reasonable; and ii. Design and perform further procedures to obtain sufficient appropriate evidence regarding the assessed risk of material misstatement relating to the disclosures in the sustainability information that describe the uncertainty; or (iii) Obtain evidence from events occurring up to the date of the practitioner's report.

Revising the Risk Assessment in a Reasonable Assurance Engagement

147R. If the practitioner becomes aware of a matter or obtains new information that is inconsistent with the evidence on which the practitioner originally based the identification and assessment of the risks of material misstatement at the assertion level for the disclosures, the practitioner shall:

(a) Revise, if necessary, the assessment of the risks of material misstatement; and

(b) Perform additional procedures to obtain further evidence to enable the practitioner to express a reasonable assurance conclusion. (Ref: Para. A463R)

Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement

148L. If the practitioner becomes aware of a matter that causes the practitioner to believe the sustainability information may be materially misstated, the practitioner shall design and perform additional procedures to obtain further evidence until the practitioner is able to: (Ref: Para A464L–A467L)

(a) Conclude that the matter(s) is not likely to cause the sustainability information to be materially misstated; or

(b) Determine that the matter(s) causes the sustainability information to be materially misstated.

The Entity's Process for Assembling the Sustainability Information

Limited Assurance	Reasonable Assurance
149L. The practitioner's procedures shall include the following procedures related to the entity's process for assembling the sustainability information: (Ref: Para. A468) (a) Agreeing or reconciling the sustainability information with the underlying records; and (b) Obtaining, through enquiry of management, an understanding of material adjustments made during the course of preparing the sustainability information and considering whether additional procedures are necessary in the circumstances.	149R. The practitioner's procedures shall include the following procedures related to the entity's process for assembling the sustainability information: (Ref: Para. A468) (a) Agreeing or reconciling the sustainability information with the underlying records; and (b) Obtaining evidence about material adjustments made during the course of preparing the sustainability information.
	150R. In responding to the risk of management override of controls in accordance with paragraph 123R, the practitioner shall design and perform the following procedures: (a) Test the appropriateness of adjustments made by management in the process for assembling the sustainability information; (b) Make enquiries of individuals involved in the sustainability reporting process about their knowledge of inappropriate or unusual activity relating to adjustments to sustainability information; and (c) Determine whether other procedures are needed in addition to those in paragraphs (a)–(b) above, in order to respond to the risks of management override of controls. (Ref: Para. A469R)
151L. For group sustainability information, the practitioner shall design and perform further procedures to respond to the assessed risks of material misstatement arising from the aggregation process. Such procedures shall include: (a) Obtaining, through enquiry of management, an understanding of how management has aggregated the information; (b) Determining that all entities have been	151R. For group sustainability information, the practitioner shall design and perform further procedures to respond to the assessed risks of material misstatement arising from the aggregation process. Such procedures shall include: (a) Obtaining an understanding of how management has aggregated the information; (b) Determining that all entities have been included in the sustainability information as required by the applicable criteria; and

Limited Assurance	Reasonable Assurance
included in the sustainability information as required by the applicable criteria; and (c) Considering whether management's judgements made in the aggregation process give rise to indicators of possible management bias.	(c) Evaluating whether management's judgements made in the aggregation process give rise to indicators of possible management bias.

Documentation

152. The practitioner shall include in the engagement documentation:

    (a) The overall responses in accordance with paragraphs 128L and 128R and the reasons for such responses;

    (b) The results of the further procedures, including the conclusions where these are not otherwise clear;

    (c) Identified or suspected fraud or non-compliance with laws and regulations and the procedures performed, the significant professional judgements made, and the conclusions reached thereon; and

    (d) When applicable, conclusions reached about whether it is appropriate to use evidence about the operating effectiveness of controls obtained in previous engagements.

Accumulation and Consideration of Identified Misstatements

Accumulation of Identified Misstatements

153. The practitioner shall accumulate misstatements identified during the engagement, other than those that are clearly trivial. (Ref: Para. A470–A476)

154. The practitioner shall: (Ref: Para. A477–A480)

    (a) Consider whether identified misstatements, either individually or in aggregate, may be due to fraud; and

    (b) Respond appropriately if there are indicators that there may be material misstatements due to fraud.

Consideration of Identified Misstatements as the Engagement Progresses

155. The practitioner shall determine whether the approach to the engagement needs to be revised if: (Ref: Para. A481)

    (a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the engagement, could be material; or

    (b) The misstatements accumulated during the engagement may, in the aggregate, result in the sustainability information being materially misstated.

Communicating and Correcting Misstatements

156. The practitioner shall communicate to management, on a timely basis, all misstatements accumulated during the assurance engagement, and shall request management to correct those misstatements. (Ref: Para. A482)

157. If, at the practitioner's request, management has examined the sustainability information and corrected misstatements that were detected, the practitioner shall perform additional procedures with respect to the work performed by management to determine whether material misstatements remain.

158. If management refuses to correct some or all of the misstatements communicated by the practitioner, the practitioner shall obtain an understanding of management's reasons for not doing so and shall consider that understanding when forming the practitioner's conclusion. (Ref: Para. A483)

Evaluating the Effect of Uncorrected Misstatements

159. Prior to evaluating the effect of uncorrected misstatements, the practitioner shall consider whether the results of procedures performed and evidence obtained indicate that materiality needs to be revised.

160. The practitioner shall determine whether uncorrected misstatements are material, individually or in the aggregate. In making this determination, the practitioner shall consider the size and nature of the misstatements, and the particular circumstances of their occurrence. (Ref: Para. A484–A498)

Documentation

161. The practitioner shall include in the engagement documentation:

(a) All misstatements accumulated during the engagement, other than those that are clearly trivial, and whether they have been corrected (paragraphs 153 and 156); and

(b) The practitioner's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion (paragraph 160).

Evaluating the Description of Applicable Criteria

162. The practitioner shall evaluate whether the sustainability information adequately references or describes the applicable criteria and the sources of those criteria. (Ref: Para. A499–A501)

Subsequent Events

163. The practitioner shall: (Ref: Para. A502–A504L)

(a) Perform procedures to identify events occurring up to the date of the assurance report that may have an effect on the sustainability information and the assurance report; and

(b) Evaluate the sufficiency and appropriateness of evidence obtained about whether such events are appropriately reflected in that sustainability information in accordance with the applicable criteria.

164. The practitioner shall respond appropriately to facts that become known to the practitioner after the date of the assurance report, that, had they been known to the practitioner at that date, may have caused the practitioner to amend the assurance report. (Ref: Para. A505)

Written Representations from Management and Those Charged with Governance

165. The practitioner shall request from management and, where appropriate, those charged with governance a written representation: (Ref: Para. A506–A507)

(a) That they have fulfilled their responsibility for the preparation of the sustainability information, including comparative information where appropriate, in accordance with the applicable criteria, as set out in the terms of the engagement;

(b) That they have provided the practitioner with all relevant information and access as agreed in the terms of the engagement and reflected all relevant matters in the sustainability information;

(c) Whether they believe the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the sustainability information. A summary of such items shall be included in, or attached to, the written representation;

(d) Whether they believe that significant assumptions used in making estimates and preparing forward-looking information are appropriate;

(e) That they have communicated to the practitioner all deficiencies in internal control relevant to the engagement that are not clearly trivial of which they are aware;

(f) Whether they have disclosed to the practitioner their knowledge of any fraud or suspected fraud or identified or suspected non-compliance with laws and regulations where the fraud or non-compliance could have a material effect on the sustainability information; and

(g) That they adjusted the sustainability information for or disclosed all events occurring subsequent to the date of the sustainability information and for which the applicable criteria require adjustment or disclosure.

166. If, in addition to the required representations, the practitioner determines that it is necessary to obtain one or more written representations to support other evidence relevant to the sustainability information, the practitioner shall request them.

167. When written representations relate to matters that are material to the sustainability information, the practitioner shall:

(a) Evaluate their reasonableness and consistency with other evidence obtained, including other representations (oral or written); and

(b) Consider whether those making the representations can be expected to be well-informed on those matters.

168. The date of the written representations shall be as near as practicable to, but not after, the date of the assurance report.

169. If one or more of the requested written representations are not provided or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the practitioner shall:

(a) Discuss the matter with management and, where appropriate, those charged with governance;

(b) Re-evaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and

(c) Take appropriate actions, including determining the possible effect on the conclusion in the assurance report.

170. The practitioner shall disclaim a conclusion on the sustainability information or withdraw from the engagement, when withdrawal is possible under applicable law or regulation, if:

(a) The practitioner concludes that there is sufficient doubt about the integrity of the person(s) providing the written representations required by paragraphs 165(a) and (b) that written representations in these regards are not reliable; or

(b) The entity does not provide the written representations required by paragraphs 165(a) and (b).

Other Information

Obtaining the Other Information

171. The practitioner shall: (Ref: Para. A508–A511)

(a) Identify the other information by determining, through discussion with management, the document or documents expected to be issued that will contain the sustainability information and the assurance report thereon, and the entity's planned manner and timing of the issuance of such document(s); and

(b) Make arrangements with management to obtain in a timely manner prior to the date of the assurance report, the final version of such document(s).

Reading and Considering the Other Information

172. The practitioner shall read the other information obtained prior to the date of the assurance report and, in doing so shall: (Ref: Para. A512–A513)

    (a) Consider whether there is a material inconsistency between the other information and the sustainability information;

    (b) Consider whether there is a material inconsistency between the other information and the practitioner's knowledge obtained during the assurance engagement, in the context of evidence obtained and conclusions reached in the engagement; and

    (c) Remain alert for indications that the other information, not related to the sustainability information or to the practitioner's knowledge obtained during the engagement, appears to be materially misstated.

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated

173. If the practitioner identifies that a material inconsistency appears to exist or becomes aware that the other information appears to be materially misstated, the practitioner shall discuss the matter with management and, if necessary, perform other procedures to conclude whether:

    (a) A material misstatement of the other information exists;

    (b) A material misstatement of the sustainability information exists; or

    (c) The practitioner's understanding of the entity and its environment needs to be updated.

174. If the other information includes the entity's financial statements subject to audit and the practitioner identifies that a material inconsistency appears to exist between those financial statements and the sustainability information, or becomes aware that the financial statements appear to be materially misstated, the practitioner shall also communicate the matter to the auditor of the entity's financial statements, unless prohibited by law or regulation, or professional requirements.

Responding When the Practitioner Concludes That a Material Misstatement of the Other Information Exists

175. If the practitioner concludes that a material misstatement of the other information exists, the practitioner shall request management to correct the other information. If management: (Ref: Para. A514–A515)

    (a) Agrees to make the correction, the practitioner shall determine that the correction is made; or

    (b) Refuses to make the correction, the practitioner shall communicate the matter to those charged with governance and request that the correction be made.

176. If the practitioner concludes that a material misstatement exists in the other information and it is not corrected after communicating with those charged with governance, the practitioner shall take appropriate action, including: (Ref: Para. A514–A515)

    (a) Considering the implications for the assurance report and communicating with those charged with governance about how the practitioner plans to address the material misstatement in the assurance report; or (Ref: Para. A516)

    (b) If withdrawal is possible under applicable law or regulation, withdrawing from the engagement. (Ref: Para. A517)

Responding When a Material Misstatement of the Sustainability Information Exists or the Practitioner's Understanding of the Entity and Its Environment Needs to Be Updated

177. If, as a result of performing the procedures in paragraph 172, the practitioner concludes that a material misstatement of the sustainability information exists, or the practitioner's understanding of the entity and its environment needs to be updated, the practitioner shall respond appropriately. (Ref: Para. A518)

Forming the Assurance Conclusion

Evaluating the Evidence Obtained

178. The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained, including evidence from the work performed by a practitioner's external expert, another practitioner or internal audit function, and, if necessary in the circumstances, attempt to obtain further evidence. In making this evaluation, the practitioner shall: (Ref: Para. A519–A522)

    (a) Evaluate whether the evidence obtained meets the intended purpose of the procedures; and

    (b) Consider all evidence obtained, including evidence that is consistent or inconsistent with other evidence, and regardless of whether it appears to corroborate or to contradict the disclosures.

179. The practitioner shall evaluate whether judgements and decisions made by management in the estimates made and assumptions used in preparing the sustainability information, including with respect to forward-looking information, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the practitioner shall evaluate the implications for the assurance engagement. Where there is intention to mislead, management bias is fraudulent in nature.

180. If the practitioner obtains evidence that is inconsistent with other evidence, the practitioner shall: (Ref: Para. A523–A526)

    (a) Determine what modifications or additions to procedures are necessary to understand and address the inconsistency; and

    (b) Consider the effect, if any, on other aspects of the assurance engagement.

Concluding

181. The practitioner shall form a conclusion about whether the sustainability information is free from material misstatement, whether due to fraud or error. In forming that conclusion, the practitioner shall consider the practitioner's evaluation in paragraphs 178 and 179 regarding the sufficiency and appropriateness of evidence obtained and the determination in paragraph 160 of whether uncorrected misstatements are material, individually or in the aggregate. (Ref: Para. A527)

182. When the principles of fair presentation are embodied in the applicable criteria, the evaluation required by paragraph 181 shall also include consideration of: (Ref: Para. A528–A529)

    (a) The overall presentation, structure, and content of the sustainability information; and

    (b) When appropriate in the context of the criteria, the wording of the practitioner's conclusion, or other engagement circumstances, whether the sustainability information represents the sustainability matters in a manner that achieves fair presentation.

183. If sustainability information prepared in accordance with a fair presentation framework does not achieve fair presentation, the practitioner shall discuss the matter with management and, depending on the requirements of the applicable framework and how the matter is resolved, shall determine whether it is necessary to modify the conclusion in the assurance report in accordance with paragraph 203.

184. If the sustainability information is prepared in accordance with compliance criteria, the practitioner is not required to evaluate whether the sustainability information achieves fair presentation. However, if the practitioner concludes that such sustainability information is misleading, the practitioner shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the practitioner's report.

Scope Limitation

185. If the practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists, and the practitioner shall either: (Ref: Para. A530–A531)

(a) Express a qualified conclusion;

(b) Disclaim a conclusion; or

(c) Withdraw from the engagement, if withdrawal is possible under applicable law or regulation, as appropriate.

Taking Overall Responsibility for Managing and Achieving Quality

186. Prior to dating the assurance report, the engagement leader shall:

(a) Take responsibility for determining whether relevant ethical requirements, including independence, have been fulfilled.

(b) Determine, through review of engagement documentation and discussion with the engagement team, that sufficient appropriate evidence has been obtained to support the conclusions reached and for the assurance report to be issued.

(c) Review the sustainability information and the assurance report, to determine that the report to be issued will be appropriate in the circumstances.

(d) Determine that:

(i) The engagement leader's involvement has been sufficient and appropriate throughout the engagement such that the engagement leader has the basis for determining that the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and (Ref: Para. A532–A534)

(ii) The nature and circumstances of the engagement, any changes thereto, and the firm's related policies or procedures have been taken into account in complying with the requirements of this ISSA (NZ).

(e) If the engagement is subject to an engagement quality review, determine that the engagement quality review has been completed.

Documentation

187. The practitioner shall include in the engagement documentation:

(a) The basis for the engagement leader's determination in accordance with paragraph 186(b) that sufficient appropriate evidence has been obtained, including:

(i) The determination in accordance with paragraph 50(d) that the work of another practitioner is adequate for the practitioner's purposes;

(ii) The evaluation in accordance with paragraph 57 that the work of a practitioner's external expert is adequate for the practitioner's purposes;

(iii) The determination in accordance with paragraph 59(e) that the work of the internal audit function is adequate for the practitioner's purposes; and

(iv) If the practitioner identified information that was inconsistent with their final conclusion regarding a significant matter and how the practitioner addressed the inconsistency (see paragraph 180); and (Ref: Para. A535)

(b) The basis for the engagement leader's determination in accordance with paragraph 186(d)(i) that the engagement leader's involvement has been sufficient and appropriate throughout the engagement. (Ref: Para. A536)

Preparing the Assurance Report

188. The assurance report shall be in writing and shall contain a clear expression of the practitioner's reasonable assurance opinion or limited assurance conclusion about the sustainability information. (Ref: Para. A537–A538)

189. The practitioner's conclusion shall be clearly separated from information or explanations that are not intended to affect the practitioner's conclusion, including any:

(a) Emphasis of Matter paragraphs;

(b) Other Matter paragraphs;

(c) Findings related to particular aspects of the engagement;

(d) Recommendations; or

(e) Additional information included in the assurance report.

The wording used shall make it clear that an Emphasis of Matter paragraph, Other Matter paragraph, findings, recommendations or additional information is not intended to detract from the practitioner's conclusion. (Ref: Para. A537–A538)

Assurance Report Content

190. The assurance report shall include at a minimum the following basic elements: (Ref: Para. A539, A567–A569)

(a) A title that clearly indicates the report is an independent practitioner's limited, reasonable or combined limited and reasonable assurance report. (Ref: Para. A540)

(b) An addressee. (Ref: Para. A541)

(c) The practitioner's conclusion in the first section of the assurance report, which: (Ref: Para. A542–A552)

(i) Includes a heading reflecting the type of conclusion provided, either:

a. For unmodified conclusions, "Reasonable Assurance Opinion," "Limited Assurance Conclusion," or appropriate headings for an assurance report for a combined reasonable assurance and limited assurance engagement; or

b. For modified conclusions, the heading in a. above shall be prefixed with "Qualified," "Adverse," or "Disclaimer of" as appropriate, and, for an assurance report for a combined reasonable and limited assurance engagement, clear identification of which opinion(s) or conclusion(s) is modified;

(ii) Identifies the entity whose sustainability information has been subject to the assurance engagement;

(iii) Identifies or describes the level of assurance, either reasonable or limited or different levels of assurance for different parts of the sustainability information, obtained by the practitioner; (Ref: Para. A542)

(iv) Identifies or describes the sustainability information subject to the assurance engagement, including, if appropriate, the sustainability matters and how that information is reported; (Ref: Para. A543–A544)

(v) Specifies the date of, or period or periods covered by the sustainability information;

(vi) Expresses a conclusion, which: (Ref: Para. A545L–A547)

a. For reasonable assurance, shall be expressed in a positive form, that the sustainability information is prepared or fairly presented, in all material respects, in accordance with the applicable criteria; or

b. For limited assurance, shall be expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's

attention to cause the practitioner to believe that the sustainability information is not prepared or not fairly presented, in all material respects, in accordance with the applicable criteria;

(vii) Identifies the applicable criteria, whether framework criteria, entity-developed criteria or both, and, for entity-developed criteria, where it is located; (Ref: A548–A551)

(viii) The conclusion in paragraph 190(c)(vi) shall be phrased in terms of: (Ref: Para. A545L–A547)

a. The sustainability information and the applicable criteria; or

b. A statement made by the appropriate party(ies); and

(ix) When appropriate, the conclusion shall inform the intended users of the context in which the practitioner's conclusion is to be read. (Ref: Para. A552)

(d) The basis for conclusion directly following the Conclusion section, with the heading "Basis for Opinion" for a reasonable assurance report, "Basis for Conclusion" for a limited assurance report, or appropriate heading(s) for an assurance report for a combined reasonable and limited assurance engagement that:

(i) States that the engagement was conducted in accordance with ISSA (NZ) 5000 *General Requirements for Sustainability Assurance Engagements*; (Ref: Para. A553)

(ii) For a limited assurance engagement, states that:

a. The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and

b. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed;

(iii) Refers to the section of the assurance report that describes the practitioner's responsibilities in accordance with this ISSA (NZ) (see paragraph 190(h));

(iv) States that the practitioner complies with the independence and other ethical requirements of:

a. Professional and Ethical Standard 1 related to sustainability assurance engagements; or

b. Other professional requirements or requirements in law or regulation, and shall:

i. Identify those requirements; and

ii. Disclose the name of the appropriate authority that has determined such requirements to be at least as demanding as the provisions of Professional and Ethical Standard 1 related to sustainability assurance engagements;

(v) If the relevant ethical requirements require the practitioner to publicly disclose when the practitioner applied independence requirements specific to sustainability assurance engagements of certain entities, the statement in accordance with part (iv) above shall indicate that the practitioner is independent of the entity in accordance with the independence requirements applicable to the sustainability assurance engagements of those entities; (Ref: Para. A554)

NZ(v)(a): A statement as to the existence of any relationship (other than that of practitioner) which the practitioner has with, or any interests which the practitioner has in, the entity or any of its subsidiaries.

(vi) States that the firm of which the practitioner is a member applies:

a. Professional and Ethical Standard 3; or

b. Other professional requirements, or requirements in law or regulation, and shall:

i. Identify those requirements; and

ii. Disclose the name of the appropriate authority that has determined such requirements to be at least as demanding as Professional and Ethical Standard 3;

(vii) States whether the practitioner believes that the evidence the practitioner has obtained is sufficient and appropriate to provide a basis for the practitioner's conclusion; and

(viii) If the practitioner expresses a modified conclusion, provides a description of the matter(s) giving rise to the modification.

(e) Where applicable, a section with a heading "Other Information," containing the matters in accordance with paragraph 202.

(f) A section with the heading "Responsibilities for the Sustainability Information" that:

(i) States that management or those charged with governance, as appropriate, is responsible for: (Ref: Para. A555–A556)

a. The preparation and, if applicable, fair presentation of the sustainability information in accordance with the applicable criteria; and (Ref: Para. A557)

b. Designing, implementing and maintaining such internal controls that management determines is necessary to enable the preparation of sustainability information in accordance with the applicable criteria that is free from material misstatement, whether due to fraud or error; and

(ii) If those responsible for oversight of the process to prepare the sustainability information are different from those who fulfil the responsibilities described in (f)(i), identifies those responsible for oversight. (Ref: Para. A556)

(g) If applicable, a section with the heading "Inherent Limitations in Preparing the Sustainability Information" that describes any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria, including inherent limitations relating to forward-looking information included in the sustainability information. (Ref: Para. A494, A558–A560 and A579)

(h) A section with the heading "Practitioner's Responsibilities" that states that: (Ref: Para. A555)

(i) The objective of the practitioner is to plan and perform the assurance engagement to obtain limited or reasonable assurance, as applicable, about whether the sustainability information is free from material misstatement, whether due to fraud or error, and to issue an assurance report that includes a conclusion (for limited assurance) or opinion (for reasonable assurance);

(ii) Misstatements can arise from fraud or error, and:

a. Are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of intended users taken on the basis of the sustainability information; or

b. If materiality is defined or described differently in the applicable criteria, include such definition or description;

(iii) The practitioner exercises professional judgement and maintains professional scepticism throughout the engagement;

(iv) The practitioner performs risk assessment procedures, including obtaining:

a. For limited assurance: an understanding of internal controls relevant to the engagement to identify and assess the risks of material misstatement, whether due to fraud or error, at the disclosure level, but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control. If the limited assurance report includes a conclusion on the effectiveness of internal control, the practitioner shall omit the phrase that the practitioner's

consideration of internal control is not for the purpose of providing a conclusion on the effectiveness of the entity's internal control; or

b. For reasonable assurance: an understanding of internal controls relevant to the engagement, to identify and assess the risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. If the reasonable assurance report includes an opinion on the effectiveness of internal control, the practitioner shall omit the phrase that the practitioner's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;

(v) The practitioner designs and performs procedures:

a. For limited assurance: responsive to the assessed risks of material misstatement at the disclosure level; or

b. For reasonable assurance: responsive to the assessed risks of material misstatement at the assertion level for the disclosures;

(vi) The risk of not detecting a material misstatement due to fraud is higher than for one due to error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

(i) For limited assurance, a section, with the heading "Summary of Work Performed," that contains an informative summary of the work performed as a basis for the practitioner's conclusion. This section shall describe the nature, timing and extent of procedures performed sufficiently to enable users to understand the limited assurance the practitioner has obtained. (Ref: Para. A561–A565L)

(j) The practitioner's signature.

(k) The location in the jurisdiction where the engagement leader practices.

(l) The date of the assurance report. The assurance report shall be dated no earlier than the date on which: (Ref: Para. A566)

(i) The practitioner has obtained the evidence on which the practitioner's conclusion is based, including evidence that those with the recognised authority have asserted that they have taken responsibility for the sustainability information; and

(ii) When an engagement quality review is required in accordance with Professional and Ethical Standard 3 or the firm's policies or procedures, the engagement quality review is complete.

Name of the Engagement Leader in the Assurance Report

191. When the assurance report on sustainability information is for a FMC reporting entity considered to have a higher level of public accountability, the name of the engagement leader shall be included, unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the practitioner intends not to include the name of the engagement leader in the assurance report, the practitioner shall discuss this intention with those charged with governance to inform them of the practitioner's assessment of the likelihood and severity of a significant personal security threat. (Ref: Para. A570–A572)

Reference to a Practitioner's Expert in the Assurance Report

192. If the practitioner refers to the work of a practitioner's expert in the assurance report, the wording of that report shall not identify the expert, unless required by law or regulation, or otherwise imply that the practitioner's responsibility for the conclusion expressed in that report is reduced because of the involvement of that expert. (Ref: Para. A99, A573–A575)

Other Reporting Responsibilities

193. If the practitioner addresses other reporting responsibilities in the assurance report on the sustainability information that are in addition to the practitioner's responsibilities under this ISSA (NZ), these other reporting responsibilities shall be addressed in a separate section in the assurance report with a heading "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section. If these other reporting responsibilities address the same report elements as those presented under the reporting responsibilities required by this ISSA (NZ), the other reporting responsibilities may be presented in the same section as the related report elements required by this ISSA (NZ). (Ref: Para. A576–A577)

194. If other reporting responsibilities are presented in the same section as the related report elements required by this ISSA (NZ), the practitioner's report shall clearly differentiate the other reporting responsibilities from the reporting that is required by this ISSA (NZ). (Ref: Para. A578)

195. If the assurance report contains a separate section that addresses other reporting responsibilities, the requirements of paragraph 190 shall be included under a section with a heading "[Limited, Reasonable, or Limited and Reasonable] Assurance Report on the Sustainability Information." The "Report on Other Legal and Regulatory Requirements" shall follow the "[Limited, Reasonable, or Limited and Reasonable] Assurance Report on the Sustainability Information." (Ref: Para. A578)

196. If the practitioner is required by law or regulation to use a specific layout or wording of the assurance report, the assurance report shall refer to this ISSA (NZ) only if the assurance report includes, at a minimum, each of the elements identified in paragraphs 190 and 191.

Engagements Conducted in Accordance with Both ISSA (NZ) 5000 and Other Assurance Standards

197. A practitioner may be required to conduct an assurance engagement in accordance with the assurance standards of a specific jurisdiction (the "other assurance standards"), and has additionally complied with this ISSA (NZ) in the conduct of the engagement. If this is the case, the assurance report may refer to this ISSA (NZ) in addition to the other assurance standards, but the practitioner shall do so only if:

    (a) There is no conflict between the requirements in the other assurance standards and those in this ISSA (NZ) that would lead the practitioner:

        (i) to reach a different conclusion, or

        (ii) not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by this ISSA (NZ); and

    (b) The assurance report includes, at a minimum, each of the elements set out in paragraphs 190 and 191 when the practitioner uses the layout or wording specified by the other assurance standards. The assurance report shall identify such other assurance standards, including the jurisdiction of origin of the other assurance standards.

Unmodified Conclusion

Limited Assurance	**Reasonable Assurance**
198L. The practitioner shall express an unmodified limited assurance conclusion when the practitioner concludes, that, based on the procedures performed and evidence obtained, no matter(s) has come to the attention of the practitioner that causes the practitioner to believe that: (a) In the case of compliance criteria, the sustainability information is not prepared, in all material respects, in accordance with the applicable criteria;	198R. The practitioner shall express an unmodified reasonable assurance opinion when the practitioner concludes that: (a) In the case of compliance criteria, the sustainability information is prepared, in all material respects, in accordance with the applicable criteria; or (b) In the case of fair presentation criteria, the sustainability information is fairly presented, in all material respects, in

Limited Assurance	Reasonable Assurance
or (b) In the case of fair presentation criteria, the sustainability information is not fairly presented, in all material respects, in accordance with the applicable criteria.	accordance with the applicable criteria.

Emphasis of Matter Paragraph and Other Matter Paragraph

199. If the practitioner considers it necessary to: (Ref: Para. A579–A582)

(a) Draw intended users' attention to a matter presented or disclosed in the sustainability information that, in the practitioner's judgement, is of such importance that it is fundamental to intended users' understanding of that information (an Emphasis of Matter paragraph); or

(b) Communicate a matter other than those that are presented or disclosed in the sustainability information that, in the practitioner's judgement, is relevant to intended users' understanding of the engagement, the practitioner's responsibilities or the assurance report (an Other Matter paragraph); and

this is not prohibited by law or regulation, the practitioner shall do so in a paragraph in the assurance report, with an appropriate heading, that clearly indicates the practitioner's conclusion is not modified in respect of the matter.

200. If the applicable criteria are designed for a specific purpose, the practitioner shall include an Emphasis of Matter paragraph that alerts readers to this fact, and that, as a result, the sustainability information may not be suitable for another purpose. (Ref: Para. A583–A584)

Other Information

201. If the practitioner has obtained the other information by the date of the assurance report, the assurance report shall include a separate section in accordance with paragraph 190(e), except when the practitioner disclaims a conclusion, in which case an "Other Information" section is not included. (Ref: Para. A585)

202. When the assurance report is required to include an Other Information section in accordance with paragraph 201, this section shall include:

(a) A statement that management or those charged with governance, as appropriate, is responsible for the other information;

(b) An identification of other information obtained by the practitioner prior to the date of the assurance report;

(c) A statement that the practitioner's conclusion does not cover the other information and, accordingly, that the practitioner does not provide a conclusion thereon; (Ref: Para. A586)

(d) A description of the practitioner's responsibilities relating to reading, considering, and reporting on other information as required by this ISSA (NZ); and

(e) Either:

(i) A statement that the practitioner has nothing to report with respect to the other information; or

(ii) If the practitioner has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

Modified Conclusion

203. The practitioner shall express a modified conclusion in the following circumstances:

    (a) When, in the practitioner's professional judgement, a scope limitation exists, and the effect of the matter could be material. In such cases, the practitioner shall express a qualified conclusion or a disclaimer of conclusion. (Ref: Para. A587, A593L–A595)

    (b) When, in the practitioner's professional judgement, the sustainability information is materially misstated. In such cases, the practitioner shall express a qualified conclusion or adverse conclusion. (Ref: Para. A588–A590, A593L–A595)

204. The practitioner shall express a qualified conclusion when, in the practitioner's professional judgement, the effects, or possible effects, of a matter are not so material and pervasive as to require an adverse conclusion or a disclaimer of conclusion. A qualified conclusion shall be expressed as being "except for" the effects, or possible effects, of the matter to which the qualification relates. (Ref: Para. A591–A594R)

205. If the practitioner expresses a modified conclusion because of a scope limitation, but is also aware of a matter(s) that causes the sustainability information to be materially misstated, the practitioner shall include in the assurance report a clear description of both the scope limitation and the matter(s) that causes that the sustainability information to be materially misstated.

206. If a statement made by management, or those charged with governance, as appropriate, in the sustainability information has identified and properly described that the sustainability information is materially misstated, the practitioner shall either:

    (a) Express a qualified conclusion or adverse conclusion phrased in terms of the sustainability information and the applicable criteria; or

    (b) If specifically required by the terms of the engagement to phrase the conclusion in terms of a statement made by the appropriate party(ies), express an unqualified conclusion, but include an Emphasis of Matter paragraph in the assurance report referring to the statement made by the appropriate party(ies), that identifies and properly describes that the sustainability information is materially misstated.

Comparative Information

207. The practitioner shall determine whether the applicable criteria (or law or regulation) require comparative information to be included in the sustainability information and, if so, whether that comparative information is appropriately presented. (Ref: Para. A596)

208. In determining whether the comparative information is appropriately presented, the practitioner shall evaluate whether: (Ref: Para. A597–A598)

    (a) The comparative information is consistent with the disclosures presented in the prior period and, if not, any inconsistencies are addressed in accordance with the applicable criteria; and

    (b) The criteria for measurement or evaluation of the sustainability information reflected in the comparative information are consistent with those applied in the current period or, if there have been changes, whether they have been properly applied and adequately disclosed.

209. If the comparative information is not referred to in the practitioner's assurance conclusion and was not subject to an assurance engagement in the prior period, the practitioner shall state that fact in an Other Matter paragraph. Such a statement does not, however, relieve the practitioner of the requirements in paragraphs 207–208. (Ref: Para. A599–A600)

210. If the comparative information is not referred to in the practitioner's conclusion and was subject to an assurance engagement in the prior period, the practitioner shall state in an Other Matter paragraph: (Ref: Para. A599–A600)

    (a) If the assurance engagement for the prior period had a different level of assurance or a different engagement scope than the current period, that fact and what those differences were; or

(b) If the assurance engagement for the prior period was conducted by a predecessor practitioner:

(i) That fact;

(ii) The type of conclusion provided by the predecessor practitioner;

(iii) If the conclusion was modified, the reasons for any modification; and

(iv) The date of that report.

211. Irrespective of whether the practitioner's conclusion refers to the comparative information, if the practitioner becomes aware that there may be a material misstatement of the comparative information presented, the practitioner shall: (Ref: Para. A601)

(a) Discuss the matter with management and perform procedures appropriate in the circumstances;

(b) Consider the effect on the assurance report; and

(c) If the comparative information presented contains a material misstatement, and the comparative information has not been restated:

(i) When the practitioner's conclusion refers to the comparative information, the practitioner shall express a qualified conclusion or an adverse conclusion in the assurance report; or

(ii) When the practitioner's conclusion does not refer to the comparative information, the practitioner shall include an Other Matter paragraph in the assurance report describing the circumstances affecting the comparative information.

Documentation

Matters Arising After the Date of the Assurance Report

212. If, in exceptional circumstances, the practitioner performs new or additional procedures or draws new conclusions after the date of the assurance report, the practitioner shall document: (Ref: Para. A602)

(a) The circumstances encountered;

(b) The new or additional procedures performed, evidence obtained, and conclusions reached, and their effect on the assurance report; and

(c) When and by whom the resulting changes to engagement documentation were made and reviewed.

* * *

Application and Other Explanatory Material

Introduction

Sustainability Information (Ref: Para. 2–5)

A1. Sustainability information is often intended to give insight into sustainability-related risks and opportunities for users to understand and evaluate the impacts of sustainability matters on the entity or the entity's actual or potential impacts, positive or negative, on the environment, society or economy.

A2. The framework criteria determine the principles and concepts regarding the measurement or evaluation of sustainability matters. Although the framework may not specify how to measure or evaluate all sustainability matters, it ordinarily embodies sufficient broad principles that can serve as a basis for the entity to select and apply reporting policies that are consistent with the underlying concepts in, and meet the objectives of, the requirements of the framework.

A3. The entity's process to identify sustainability information to be reported, including the identification and selection of the sustainability matters and the reporting boundary, may be required by the sustainability reporting framework or entity-developed criteria. Such a process may be referred to as the entity's "materiality assessment," or "materiality process," among other terms, as the process involves the application of materiality in identifying which information relevant to the information needs of intended users is material for the purposes of reporting. Appendix 2 illustrates how the entity's process to identify sustainability information to be reported is considered by the practitioner throughout the engagement.

A4. As described in paragraph 80, in connection with the acceptance and continuance of the assurance engagement, the practitioner is required to obtain a preliminary knowledge about the sustainability information to be reported, and whether the scope of the engagement encompasses all or part of that sustainability information.

Premises in this ISSA (NZ) (Ref: Para. 6–7)

A5. Law, regulation or professional requirements in a jurisdiction may specify relevant ethical requirements or requirements relating to quality management to be applied in the conduct of assurance engagements, and may provide guidance about what constitutes "at least as demanding" as the Professional and Ethical Standard 1 regarding relevant ethical requirements for assurance engagements, and Professional and Ethical Standard 3 regarding a firm's responsibility for its system of quality management.

Ethical Requirements (Ref: Para. 6(a), 7)

A6. As explained in paragraph A58, Professional and Ethical Standard 1 sets out the fundamental principles of ethics that establish the standards of behaviour expected of an assurance practitioner and establishes the International Independence Standards (New Zealand). The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. Paragraph A59 describes the conceptual framework in the Professional and Ethical Standard 1 that an assurance practitioner is required to apply when addressing threats to compliance with the fundamental principles. Paragraphs A60–A61 describe matters that may give rise to potential threats to compliance and that may affect or influence the practitioner's independence.

A7. Paragraph A62 explains that professional requirements, or requirements in law or regulation, addressing compliance with relevant ethical requirements are at least as demanding as the provisions of the Professional and Ethical Standard 1 related to sustainability assurance engagements when they address the matters referred to in paragraphs A58–A61 and impose obligations that achieve the aims of the requirements set out in the Professional and Ethical Standard 1 related to such engagements.

Quality Management (Ref: Para. 6(b), 7)

A8. As explained in paragraph A68, this ISSA (NZ) has been written in the context of a range of measures taken to support the quality of assurance engagements. Such measures include a system of quality management implemented across the firm.

A9. Paragraph A69 explains the responsibilities of the firm to design, implement and operate a system of quality management for assurance engagements, and paragraph A70 describes the components addressed by such a system that is designed in accordance with the requirements of Professional and Ethical Standard 3.

A10. As explained in paragraph A73, professional requirements, or requirements in law or regulation that deal with the firm's responsibilities to design, implement, and operate a system of quality management are at least as demanding as Professional and Ethical Standard 3 when they address all the matters referred to in paragraphs A69–A71 and impose obligations on the firm that achieve the aims of the objectives and requirements of Professional and Ethical Standard 3.

A11. In accordance with Professional and Ethical Standard 3, the objective of the firm is to design, implement and operate a system of quality management that provides the firm with reasonable assurance that:

(a) The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and

(b) Engagement reports issued by the firm or engagement leaders are appropriate in the circumstances.

Scope of this ISSA (NZ)

Types and Presentation of Sustainability Information (Ref: Para. 8)

A12. The sustainability information presented by an entity may be limited to certain matters, such as selected metrics, targets or key performance indicators. Alternatively, the sustainability information may cover many different aspects of topics as required by the sustainability reporting framework or by law or regulation, or that the entity chooses to present voluntarily.

A13. Sustainability information may be presented in different ways, for example, in a separate sustainability report issued by the entity, as part of the entity's annual report (e.g., a separately identified report within the annual report, as part of the management report or management commentary), in an integrated report, or through some other reporting mechanism. Depending on the applicable criteria, the sustainability information may be for a single entity, or may include information for entities that are part of a group or other entities in the reporting entity's value chain.

A14. In some circumstances, the sustainability reporting framework may permit sustainability information to be incorporated by reference from other sources, such as the audited financial statements or another section of a management report (i.e., a section other than that containing the sustainability information required to be reported). The information incorporated by reference may have been subject to an audit or an assurance engagement. If such information is within the scope of the sustainability assurance engagement, the practitioner responsible for the sustainability assurance engagement may intend to obtain evidence from the work performed by the financial statement auditor or another assurance practitioner. In these circumstances, the requirements in this ISSA (NZ) addressing using the work of another practitioner apply, including the requirement to communicate, to the extent necessary in the circumstances, about the findings from another practitioner's work.

Reasonable and Limited Assurance Engagements (Ref: Para. 9)

A15. When the disclosures relate to a number of aspects of topics, separate conclusions may be provided on each aspect. Each conclusion is expressed in the form that is appropriate to either a reasonable assurance engagement or a

limited assurance engagement. References in the ISSAs (NZ) to the conclusion in the assurance report include each conclusion when separate conclusions are provided.

Definitions (Ref: Para. 18)

Assertions

A16R. Assertions are used by practitioners to consider the different types of potential misstatements that may occur when identifying and assessing, and responding to, the risks of material misstatement in a reasonable assurance engagement. Examples of assertions are provided in paragraph A415R.

Component

A17. The framework criteria may specify that the sustainability information to be reported should be for the same reporting entity as the related financial statements (see also paragraph A35). For purposes of the ISSAs (NZ), components that include entities or business units required to be included in the reporting entity's group financial statements (e.g., subsidiaries of a parent entity) are referred to as group components. The framework criteria may also require the sustainability information to be extended to include information from other entities that are part of the reporting entity's upstream or downstream value chain. For purposes of the ISSAs (NZ), components that include such entities are referred to as value chain components.

Component Practitioner

A18. A component practitioner may comprise individuals from a network firm, a firm that is not a network firm, or another office within the practitioner's firm.

A19. In limited circumstances, the practitioner may be able to be sufficiently and appropriately involved in the work of another firm at a value chain component. For example, the reporting entity may have a direct business relationship with a supplier that allows management to arrange for the practitioner to obtain access to information at that entity or access to the firm that has performed work on that information. In those circumstances, if the practitioner intends to use such work and is able to be sufficiently and appropriately involved in the work, the other firm is a component practitioner for purposes of the ISSAs (NZ).

Criteria

A20. The criteria, particularly framework criteria, may include guidance about the sustainability matters (including the topics and aspects of topics) to be reported. The criteria also may establish how those sustainability matters are to be measured or evaluated, and how they are to be presented or disclosed.

Disclosure(s)

A21. The term "disclosure(s)" is used in this ISSA (NZ) in the context of sustainability assurance engagements and refers to sustainability information about an aspect of a topic. Accordingly, it is not intended to have the same meaning as "financial statement disclosures" as defined or described in financial reporting frameworks.

A22. Appendix 1 explains the relationship between sustainability matters, sustainability information and the related disclosures. Disclosure(s) may include quantitative or qualitative information and can vary in form and length. Management's disclosures provide a starting point in considering whether and how certain disclosures may be combined by the practitioner for the purpose of planning and performing the engagement (see also paragraphs A285–A287).

Engagement Leader

A23. The individual appointed as the engagement leader may be a partner or another senior staff member in the firm (e.g., a director or principal). Whether the individual is permitted to be an engagement leader in accordance with this ISSA (NZ) depends on how the firm assigns responsibilities, and whether law, regulation or professional requirements include requirements that specify who may be permitted to accept responsibility for the engagement.

A24. The term engagement leader in this ISSA (NZ) is the equivalent of "engagement partner" in Professional and Ethical Standard 3.

Engagement Risk

A25. Engagement risk does not refer to, or include, the practitioner's business risks, such as loss from litigation, adverse publicity, or other events arising in connection with particular sustainability matters.

A26. In general, engagement risk can be represented by the following components:

(a) Risks that the practitioner does not directly influence, which consist of:

(i) The susceptibility of the sustainability information to a material misstatement before consideration of any related controls applied by the entity (inherent risk); and

(ii) The risk that a material misstatement that occurs in the sustainability information will not be prevented, or detected and corrected, on a timely basis by the entity's internal control (control risk); and

(b) The risk that the practitioner does directly influence, which is the risk that the procedures performed by the practitioner will not detect a material misstatement (detection risk).

A27R. Reducing engagement risk to zero is very rarely attainable or cost-beneficial. Therefore, reasonable assurance is less than absolute assurance due to factors such as the following:

- The use of selective testing.
- The inherent limitations of internal control.
- The fact that much of the evidence available to the practitioner is persuasive rather than conclusive.
- The use of professional judgement in gathering and evaluating evidence and forming conclusions based on that evidence.
- In some cases, the characteristics of the sustainability matters (e.g., forward-looking information).

Engagement Team

A28. The engagement team includes personnel, which includes any internal experts, and, if applicable, component practitioners. Another practitioner is not part of the engagement team.

A29. Internal auditors who provide direct assistance refers to the use of internal auditors to perform procedures under the direction, supervision and review of the practitioner. Although they may perform procedures similar to those performed by the practitioner, such internal auditors are not independent of the entity as is required of the practitioner. They are therefore not members of the engagement team. In some jurisdictions, the practitioners may be prohibited, or restricted to some extent, by law or regulation from using the work of the internal audit function or using internal auditors to provide direct assistance.

Entity

A30. An example of an identifiable portion of a legal or economic entity is a single factory or other form of facility, such as a landfill site.

Firm

A31. The legal nature of the organisation performing the assurance engagement may take many forms and may not be described as a firm.

Fraud

A32. Although some form of management bias is inherent in subjective decisions relating to sustainability information,

when there is intention to mislead, management bias is fraudulent in nature.

A33. Paragraphs A323, A473 and A479 provide examples of matters related to material misstatements due to fraud or management bias in sustainability information, examples of where or how misstatements in sustainability information may arise and examples of misstatements due to fraud in sustainability information, respectively.

Group

A34. A single legal entity organised with branches or divisions is also a group for purposes of this ISSA (NZ) if the sustainability information for those branches and divisions is included in the single legal entity's sustainability information through an aggregation process.

Group Sustainability Information

A35. The framework criteria may specify that the sustainability information to be reported should be for the same reporting entity as the related financial statements. For example, if consolidated financial statements are required to be prepared in accordance with the applicable financial reporting framework, then the sustainability information would include information for the same entities or business units included in the consolidated financial statements. The criteria may also require the sustainability information to be extended to include information from other entities that are part of the upstream or downstream value chain. Such sustainability information, including information from the value chain, is referred to as "group sustainability information" in the ISSAs (NZ).

Intended Users

A36. Examples of intended users include shareholders, investors, lenders and other creditors who may use sustainability information to make resource allocation decisions. Other intended users who may be interested in the sustainability information reported by the organisation include consumers, taxpayers, employees, competitors, prudential authorities, central banks and bodies in charge of financial stability oversight, those granting public contracts, partners, suppliers, community, Indigenous Peoples, government, regulators, and interest groups.

A37. In some cases, there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly when a large number of people have access to it. In such cases, particularly when possible users are likely to have a broad range of interests in the sustainability matters, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and management or those charged with governance, or by law or regulation.

A38. In some cases, specific users (for example, lenders) may request the appropriate party(ies) to arrange for an assurance engagement to be performed on sustainability information that has been prepared using criteria that are designed for a specific purpose. When engagements use criteria that are designed for a specific purpose, paragraph 200 requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this may be achieved by restricting the distribution or use of the assurance report (see paragraph A584).

Partner

A39. As noted in paragraph A31, the entity performing the assurance engagement may not be described as a firm. Therefore, the individual with authority to bind the organisation with respect to the performance of the engagement may not carry the title of partner.

Reporting Boundary

A40. In some cases, framework criteria may specify the reporting boundary. In other circumstances, the reporting boundary may be determined by the entity, in which case the reporting boundary will be part of the entity-developed criteria. The reporting boundary may vary for different topics or aspects of topics (e.g., some key

performance indicators may have different boundaries from other key performance indicators because of the nature of the sustainability matters).

A41. Although the entity's sustainability information and financial statements may relate to the same reporting entity, the reporting boundary for sustainability information may differ from the boundary for purposes of preparing financial statements. For example, the reporting boundary for sustainability information may include activities, operations, relationships, or resources up and down the entity's value chain. An entity's supply chain is part of the value chain.

Substantive Procedures

A42. Analytical procedures performed to respond to an assessed risk of material misstatement are substantive in nature and therefore this ISSA (NZ) requires the practitioner to develop an expectation as the basis for evaluating the results of those procedures (see paragraphs 143L and 143R). Analytical procedures may also be used as risk assessment procedures to help identify inconsistencies, unusual events or conditions, and amounts, ratios, and trends that indicate matters that may have implications for the engagement. Unusual or unexpected relationships that are identified may assist the practitioner in identifying risks of material misstatement, including risks of material misstatement due to fraud.

Sustainability Information

A43. As explained in paragraph 2, sustainability information is information about sustainability matters and may cover a number of topics and aspects of those topics. Paragraph 2 also explains that law or regulation or sustainability reporting frameworks may describe sustainability matters, topics or aspects of topics in different ways. Examples of topics and aspects of topics include the following:

Topics	
Environmental	• Climate, including emissions • Energy, such as type of energy and consumption • Water and effluents, such as water consumption and water discharge • Biodiversity, such as impacts on biodiversity or habitats protected and restored
Social	• Labour practices, such as diversity and equal opportunity, training and education, and occupational health and safety • Human rights and community relations, such as local community engagement, impact assessments and development programmes • Customer health and safety
Governance	• Monitoring, managing and overseeing sustainability matters and their related impacts
Aspects of Topics	
• Impact analysis, including magnitude of impact • Strategy and business model • Risks and opportunities • Innovation to address risks and opportunities • Financial effects arising from risks and opportunities	

- Risk management or mitigation
- Governance
- Metrics and key performance indicators
- Targets
- Internal control over monitoring and managing risk
- Scenario analysis

A44. As explained in paragraph 5, the scope of the assurance engagement may not extend to the entirety of the sustainability information reported. Therefore, for purposes of the ISSAs (NZ), the term "sustainability information" is to be read as the information that is subject to assurance. Sustainability information not subject to the assurance engagement that is included in a document or documents containing the sustainability information subject to the assurance engagement and the assurance report thereon is other information.

Sustainability Matters

A45. Law or regulation or sustainability reporting frameworks may define or describe sustainability matters in different ways. Depending on the criteria, sustainability matters may address:

- The impacts on the entity's strategy, business model or performance;
- The impacts of the entity's activities, products and services on the environment, society or economy; or
- The entity's sustainability policies, plans, goals or targets.

A46. In addition to impacts, the criteria may also refer to risks and opportunities (e.g., how sustainability-related risks and opportunities could reasonably be expected to affect the entity's prospects) or dependencies (e.g., resources and relationships throughout the entity's value chain that may affect the entity's strategy or business model).

Conduct of an Assurance Engagement in Accordance with the ISSAs (NZ)

Complying with Standards that Are Relevant to the Engagement (Ref: Para. 19–20)

A47. In some cases, another ISSA (NZ) is also relevant to the engagement. Another ISSA (NZ) is relevant to the engagement when that ISSA (NZ) is in effect, the subject matter of the ISSA (NZ) is relevant to the engagement, and the circumstances addressed by the ISSA (NZ) exist.

A48. The ISAs (NZ)[5] and ISREs (NZ)[6] have been written for audits and reviews of historical financial information, respectively, and do not apply to other assurance engagements. They may, however, provide guidance in relation to the engagement process for practitioners undertaking a sustainability assurance engagement in accordance with this ISSA (NZ).

Text of an ISSA (NZ) (Ref: Para. 21)

A49. ISSAs (NZ) contain the objectives of the practitioner in following the ISSA (NZ), and requirements designed to enable the practitioner to meet those objectives. In addition, they contain related guidance in the form of application and other explanatory material, introductory material that provides context relevant to a proper understanding of the ISSA (NZ), and definitions.

A50. The objectives in an ISSA (NZ) provide the context in which the requirements of the ISSA (NZ) are set, and are intended to assist in:

[5] ISAs (NZ), *International Standards on Auditing (New Zealand)*

[6] ISREs (NZ), *International Standards on Related Services (New Zealand)*

(a) Understanding what is to be accomplished; and

(b) Deciding whether more needs to be done to achieve the objectives.

The proper application of the requirements of an ISSA (NZ) by the practitioner is expected to provide a sufficient basis for the practitioner's achievement of the objectives. However, because the circumstances of assurance engagements vary widely, and all such circumstances cannot be anticipated in the ISSA (NZ), the practitioner is responsible for determining the procedures necessary to fulfil the requirements of relevant ISSAs (NZ), and to achieve the objectives stated therein. In the circumstances of an engagement, there may be particular matters that require the practitioner to perform procedures in addition to those required by relevant ISSAs (NZ) to meet the objectives specified in those ISSAs (NZ).

A51. The requirements of ISSAs (NZ) are expressed as "shall."

A52. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:

- Explain more precisely what a requirement means or is intended to cover.
- Include examples that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in an ISSA (NZ). Where appropriate, additional considerations specific to public sector entities or smaller or less complex entities are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in the ISSAs (NZ). They do not, however, limit or reduce the responsibility of the practitioner to apply and comply with the requirements in an ISSA (NZ).

A53. Definitions are provided in an ISSA (NZ) to assist in the consistent application and interpretation of the ISSA (NZ) and are not intended to override definitions that may be established for other purposes, whether by laws, regulations or otherwise.

A54. Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related ISSA (NZ) or within the title and introduction of the appendix itself.

Complying with Relevant Requirements (Ref: Para. 22–23)

A55. Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements.

A56. The requirements of this ISSA (NZ) and any other relevant ISSAs (NZ) are designed to enable the practitioner to achieve the objectives specified in the ISSA (NZ), and thereby the overall objectives of the practitioner. Accordingly, other than in exceptional circumstances, the practitioner is required to comply with each requirement that is relevant in the circumstances of the assurance engagement.

Documentation of a Departure from a Relevant Requirement (Ref: Para. 24)

A57. The engagement documentation requirements apply only to requirements that are relevant in the circumstances. A requirement is not relevant only in the cases when the requirement is conditional and the condition does not exist (for example, the requirement to modify the practitioner's conclusion when there is an inability to obtain sufficient appropriate evidence, and there is no such inability).

Acceptance and Continuance of the Assurance Engagement

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 26(a), 34–37)

A58. Professional and Ethical Standard 1 sets out the fundamental principles of ethics that establish the standards of behaviour expected of an assurance practitioner and establishes the International Independence Standards (New

Zealand). The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Professional and Ethical Standard 1 also specifies the required approach for a professional accountant to comply with the fundamental principles and, when applicable, the International Independence Standards (New Zealand). Law or regulation in a jurisdiction may also contain provisions addressing ethical requirements, including independence, such as privacy laws affecting the confidentiality of information.

A59. Professional and Ethical Standard 1 provides a conceptual framework which an assurance practitioner is required to apply when addressing threats to compliance with the fundamental principles, including:

(a) Identifying threats to compliance with the fundamental principles. Threats fall into one or more of the following categories:

(i) Self-interest;

(ii) Self-review;

(iii) Advocacy;

(iv) Familiarity; and

(v) Intimidation;

(b) Evaluating whether the threats identified are at an acceptable level; and

(c) If the identified threats to compliance with the fundamental principles are not at an acceptable level, addressing them by eliminating the circumstances that create the threats, applying safeguards to reduce threats to an acceptable level, or withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

A60. Professional and Ethical Standard 1 sets out requirements and application material on various topics that may give rise to potential threats to compliance, including:

- Conflicts of interest.
- Professional appointments.
- Second opinions.
- Fees and other types of remuneration.
- Inducements, including gifts and hospitality.
- Custody of client assets.
- Responding to non-compliance with laws and regulations.

A61. Professional and Ethical Standard 1 defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional scepticism. The International Independence Standards (New Zealand) in Professional and Ethical Standard 1 address various matters that may affect or influence the practitioner's independence, including:

- Fees.
- Gifts and hospitality.
- Actual or threatened litigation.
- Financial interests.
- Loans and guarantees.
- Business relationships.

- Family and personal relationships.
- Recent service with an assurance client.
- Serving as a director or officer of an assurance client.
- Employment with an assurance client.
- Long association of personnel with an assurance client.
- Provision of non-assurance services to an assurance client.

A62. Professional requirements, or requirements in law or regulation, addressing compliance with relevant ethical requirements are at least as demanding as the provisions of Professional and Ethical Standard 1 related to sustainability assurance engagements when they address all the matters referred to in paragraphs A58–A61 and impose obligations that achieve the aims of the requirements set out in Professional and Ethical Standard 1 related to such engagements.

A63. An appropriate authority could be a national standard setter, regulator, or oversight body with responsibility for audit, assurance or related relevant ethical requirements, or a designated accreditation organisation recognised by a public authority.

Considerations Specific to Public Sector Entities (Ref: Para. 26(a), 34)

A64. Statutory measures may provide safeguards for the independence of public sector practitioners. However, public sector practitioners or firms carrying out public sector assurance engagements may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach to promote compliance with paragraph 34. This may include, where the public sector mandate does not permit withdrawal from the engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the practitioner to withdraw.

Engagement Leader Responsibilities for Acceptance and Continuance (Ref: Para. 28)

A65. Under Professional and Ethical Standard 3, for acceptance and continuance decisions, the firm is required to make judgements about the firm's ability to perform the engagement in accordance with professional requirements and applicable legal and regulatory requirements. The engagement leader may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and engagements are appropriate. If the engagement leader has concerns regarding the appropriateness of the conclusions reached, the engagement leader may discuss the basis for those conclusions with those involved in the acceptance and continuance process.

A66. If the engagement leader is directly involved throughout the firm's acceptance and continuance process, the engagement leader will be aware of the information obtained or used by the firm in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement leader's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.

A67. When the firm is obligated by law or regulation to accept or continue an assurance engagement, the engagement leader may take into account information obtained by the firm about the nature and circumstances of the engagement.

Firm-level Quality Management (Ref: Para. 30)

A68. This ISSA (NZ) has been written in the context of a range of measures taken to support the quality of sustainability assurance engagements. Such measures include:

- Competency requirements, such as education and experience, and ongoing continuing professional development as well as life-long learning requirements.

- A system of quality management implemented across the firm, i.e., Professional and Ethical Standard 3, or professional requirements, or requirements in law or regulation, that are at least as demanding.
- When applicable, in accordance with Professional and Ethical Standard 3, performance of engagement quality reviews in accordance with Professional and Ethical Standard 4.[7]
- A comprehensive set of ethical requirements, including detailed independence requirements, founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

A69. Professional and Ethical Standard 3 deals with the firm's responsibilities to design, implement and operate a system of quality management for assurance engagements. It sets out the responsibilities of the firm for establishing quality objectives, identifying and assessing risks to the achievement of the quality objectives, and designing and implementing responses to address such risks, including certain specified responses. The specified responses in Professional and Ethical Standard 3 include the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews. Professional and Ethical Standard 4 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

A70. A system of quality management addresses the following eight components:

(a) The firm's risk assessment process;

(b) Governance and leadership;

(c) Relevant ethical requirements;

(d) Acceptance and continuance of client relationships and specific engagements;

(e) Engagement performance;

(f) Resources;

(g) Information and communication; and

(h) The monitoring and remediation process.

Firms or national requirements may use different terminology or frameworks to describe the components of the system of quality management.

A71. A firm's system of quality management includes establishing a monitoring and remediation process designed to:

- Provide the firm with relevant, reliable and timely information about the design, implementation, and operation of the system of quality management.
- Take appropriate actions to respond to identified deficiencies such that deficiencies are remediated by the firm on a timely basis.

A72. Ordinarily, the engagement team may depend on the firm's system of quality management unless:

- The engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement; or
- Information provided by the firm or other parties about the effectiveness of such policies or procedures suggests otherwise.

For example, the engagement team may depend on the firm's system of quality management in relation to:

- Competence and capabilities of personnel through their recruitment and formal training.
- Independence through the accumulation and communication of relevant independence information.

[7] Professional and Ethical Standard 4, *Engagement Quality Reviews*

- Maintenance of client relationships through the firm's policies or procedures for acceptance and continuance of client relationships and assurance engagements.
- Adherence to regulatory and legal requirements through the firm's monitoring and remediation process.

A73. Professional requirements, or requirements in law or regulation, that deal with the firm's responsibilities to design, implement, and operate a system of quality management are at least as demanding as Professional and Ethical Standard 3 when they address all the matters referred to in paragraphs A69–A71 and impose obligations on the firm that achieve the aims of the objectives and requirements of Professional and Ethical Standard 3.

A74. An appropriate authority could be a national standard setter, regulator, or oversight body with responsibility for audit, assurance or related relevant ethical requirements, or a designated accreditation organisation recognised by a public authority.

Engagement-level Quality Management

Overall Responsibility for Managing and Achieving Quality (Ref: Para. 31–32)

A75. Taking overall responsibility for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement may be demonstrated by the engagement leader in various ways, including:

- Involvement in the acceptance and continuance process to be able to determine that the firm's policies or procedures for the acceptance and continuance of client relationships and assurance engagements have been followed.
- The engagement being planned and performed (including appropriate direction and supervision of engagement team members) in accordance with professional standards or requirements and applicable legal and regulatory requirements.
- Reviews being performed in accordance with the firm's policies or procedures and reviewing the engagement documentation on or before the date of the assurance report.
- Appropriate engagement documentation being maintained to provide evidence of achievement of the practitioner's objectives, and that the engagement was performed in accordance with this ISSA (NZ) and relevant legal and regulatory requirements.
- Appropriate consultation being undertaken by the engagement team on difficult or contentious matters.

A76. The engagement leader remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISSA (NZ). The term "the engagement leader shall take responsibility for…" is used for those requirements that the engagement leader is permitted to assign the design or performance of procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team. For requirements in this ISSA (NZ) that state "the engagement leader shall…", this ISSA (NZ) expressly intends that the requirement or responsibility be fulfilled by the engagement leader. In such circumstances, the engagement leader may obtain information from the firm or other members of the engagement team in fulfilling the requirement.

A77. Professional and Ethical Standard 3 requires the firm to establish quality objectives that address the firm's governance and leadership that supports the design, implementation and operation of the system of quality management. The engagement leader's responsibility for managing and achieving quality is supported by a firm culture that demonstrates a commitment to quality. A culture that demonstrates a commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviours when performing the engagement.

A78. The actions of the engagement leader, and appropriate messages to the other members of the engagement team, emphasise the fact that quality is essential in performing an assurance engagement, and the importance to the quality of the assurance engagement of:

(a) Performing work that complies with professional standards and relevant legal and regulatory requirements.

(b) Complying with the firm's policies or procedures as applicable.

(c) Issuing a report for the engagement that is appropriate in the circumstances.

(d) The engagement team's ability to raise concerns without fear of reprisals.

A79. Being sufficiently and appropriately involved throughout the engagement when procedures, tasks or actions have been assigned to other members of the engagement team may be demonstrated by the engagement leader in different ways, including:

- Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and to provide any other necessary instructions and relevant information.
- Direction and supervision of the assignees.
- Review of the assignees' work to evaluate the conclusions reached, in addition to the requirements in paragraphs 46–49.

Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: Para. 32)

A80. Within the context of the firm's system of quality management, engagement team members from the firm are responsible for implementing the firm's policies or procedures that are applicable to the engagement. As engagement team members from another firm are neither partners nor staff of the engagement leader's firm, they may not be subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies or procedures of another firm may not be similar to that of the engagement leader's firm. For example, policies or procedures regarding direction, supervision and review may be different, particularly when the other firm is in a jurisdiction with a different legal system, language or culture than that of the engagement leader's firm. Accordingly, if the engagement team includes individuals from another firm, different actions may need to be taken by the firm or the engagement leader to implement the firm's policies or procedures in respect of the work of those individuals. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm's independence systems. The firm's policies or procedures may state that such individuals can provide evidence of their independence in other ways, such as written confirmation.

Characteristics of the Engagement Leader (Ref: Para. 33)

A81. Professional and Ethical Standard 3 requires the firm to establish quality objectives that engagement team members are assigned to each engagement, including an engagement leader, who have appropriate competence and capabilities to consistently perform quality engagements.

A82. Sufficient sustainability competence provides the engagement leader with the ability to:

- Ask appropriate questions of a practitioner's expert and evaluate whether the answers are judged to be reasonable in the engagement circumstances;
- Evaluate a practitioner's expert's work and, to the extent necessary, integrate it with the work of the engagement team as a whole; and
- Take responsibility for the conclusions reached on the engagement.

A83. What constitutes sufficient sustainability competence depends on the engagement circumstances and differs from engagement to engagement. Whether the engagement leader has sufficient sustainability competence in order to accept responsibility for the conclusions reached on the engagement is a matter of professional judgement, and may involve consideration of factors such as:

- The judgement involved in evaluating whether the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances.
- The judgement involved in determining whether the sustainability information in the scope of the assurance engagement is appropriate.

- The nature and complexity of the sustainability matters.
- The extent to which the sustainability matters are capable of precise measurement or whether there is a high degree of measurement uncertainty that may need significant knowledge and judgement.
- The engagement leader's and engagement team's competence and previous experience in relation to sustainability matters.

Relevant Ethical Requirements, Including Those Related to Independence

Engagement Leader Responsibilities for Relevant Ethical Requirements (Ref: Para. 35–37)

A84. Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in:

- Drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the assurance engagement; and
- Keeping the engagement leader informed about matters relevant to the engagement team's understanding and fulfilment of relevant ethical requirements and the firm's related policies or procedures.

A85. In accordance with Professional and Ethical Standard 3, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating and addressing threats to compliance with the relevant ethical requirements.

A86. Appropriate actions the firm may take to address threats to compliance with relevant ethical requirements may include, for example:

- Following the firm's policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action(s).
- Communicating with those charged with governance.
- Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.
- Seeking legal advice.
- Withdrawing from the assurance engagement, when withdrawal is possible under applicable law or regulation.

Assurance Skills and Techniques, Professional Scepticism and Professional Judgement

Professional Scepticism (Ref: Para. 39)

A87. Professional scepticism is an attitude that includes being alert to, for example:

- Evidence that is inconsistent with other evidence obtained.
- Information that calls into question the reliability of responses to enquiries or information intended to be used as evidence.
- Circumstances that suggest the need for procedures in addition to those required by relevant ISSAs (NZ).
- Conditions that may indicate likely misstatement.
- Conditions that may indicate possible fraud.

A88. Professional scepticism is necessary for the critical assessment of evidence. This includes questioning inconsistent evidence and the reliability of responses to enquiries and information intended to be used as evidence. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the circumstances.

Maintaining professional scepticism throughout the engagement is necessary if the practitioner is, for example, to reduce the risks of:

- Overlooking unusual circumstances.
- Overgeneralising when drawing conclusions from observations.
- Using inappropriate assumptions in determining the nature, timing and extent of the procedures, and evaluating the results thereof.

A89. Unless the engagement involves assurance about whether documents are genuine, the practitioner may accept records and documents as genuine unless the practitioner has reason to believe the contrary. Nevertheless, the practitioner is required by paragraph 90 to consider the reliability of information intended to be used as evidence.

A90. The practitioner cannot be expected to disregard past experience of the honesty and integrity of those who provide evidence. Nevertheless, a belief that those who provide evidence are honest and have integrity does not relieve the practitioner of the need to maintain professional scepticism.

A91. Impediments to the exercise of professional scepticism at the engagement level may include, but are not limited to:

- Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including experts, when needed.
- Tight deadlines, which may negatively affect the behaviour of those who perform the work as well as those who direct, supervise and review that work.
- Lack of cooperation or undue pressures imposed by management, which may negatively affect the engagement team's ability to resolve complex or contentious issues.
- Insufficient understanding of the entity and its environment, its system of internal control and the applicable criteria.
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of evidence and seek evidence from sources that are more easily accessible.
- Overreliance on automated tools and techniques, which may result in the engagement team not critically assessing evidence.
- Circumstances when there is no one generally accepted way in which to measure or evaluate the sustainability matters and report the sustainability information, which may result in practitioners being less willing to question management's approach.
- Complexity of the engagement. The larger, more complex and more diverse the entity (e.g., the greater its geographical spread, and the more dependent it is on a long and diverse supply chain), the more challenging it may be to understand and evaluate:
    - Whether the sustainability matters are appropriate in the engagement circumstances; and
    - How much prominence should be given to each disclosure in the context of the sustainability information as a whole.

A92. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional scepticism at the engagement level may include:

- Remaining alert to changes in the nature or circumstances of the engagement that necessitate requesting additional or different resources for the engagement.
- Explicitly alerting the engagement team to instances or situations when vulnerability to unconscious or conscious biases may be greater (e.g., areas involving greater judgement).

- Changing the composition of the engagement team, for example, requesting that more experienced individuals with greater skills or knowledge or specific expertise are assigned to the engagement.
- Involving more experienced members of the engagement team in more complex areas of the engagement or when dealing with members of management who are difficult or challenging to interact with.
- Involving members of the engagement team with specialised skills and knowledge or a practitioner's expert to assist the engagement team with complex or subjective areas of the engagement.
- Involving appropriate resources to perform procedures to obtain evidence about sustainability information related to group components and value chain components.
- Modifying the nature, timing and extent of direction, supervision or review, for example, by more in-person oversight on a more frequent basis or more in-depth reviews of certain working papers.
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom evidence may be sought.

Professional Judgement (Ref: Para. 40)

A93. Professional judgement is essential to the proper conduct of an assurance engagement. This is because interpretation of relevant ethical requirements and the ISSAs (NZ), and the informed decisions required throughout the engagement, cannot be made without the application of relevant training, knowledge, and experience to the facts and circumstances. Professional judgement is necessary in particular regarding decisions about:

- The presence of the preconditions for an assurance engagement.
- Materiality and engagement risk.
- The nature, timing and extent of procedures used to meet the requirements of this ISSA (NZ) and any other relevant ISSAs (NZ) and to obtain evidence, including where, and to what extent, it is necessary to perform procedures at entities across the entity's value chain.
- Evaluating whether sufficient appropriate evidence has been obtained, and whether more needs to be done to achieve the objectives of this ISSA (NZ) and any other relevant ISSAs (NZ). In particular, in the case of a limited assurance engagement, professional judgement is required in evaluating whether a meaningful level of assurance has been obtained.
- The appropriate conclusions to draw based on the evidence obtained.
- The actions to take in exercising professional scepticism.
- Whether the engagement leader's involvement throughout the engagement has been sufficient and appropriate such that the engagement leader has the basis for determining whether the significant judgements made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement.

A94. The distinguishing feature of the professional judgement expected of a practitioner is that it is exercised by a practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgements.

A95. The exercise of professional judgement is based on the facts and circumstances that are known by the practitioner. It needs to be exercised throughout the engagement and be appropriately documented. Professional judgement can be evaluated based on whether the judgement reached reflects a competent application of assurance and measurement or evaluation principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner's assurance report. Professional judgement is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence.

Engagement Resources (Ref: Para. 41)

A96. Resources include human, technological and intellectual resources. Human resources include members of the engagement team and, when applicable, a practitioner's external expert. Technological resources include technological tools that may allow the practitioner to manage the engagement more effectively and efficiently. Intellectual resources include, for example, assurance methodologies, implementation tools, assurance guides, model programmes, templates, checklists or forms.

A97. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, the engagement leader ordinarily may depend on the firm's related policies or procedures (including resources). For example, based on information communicated by the firm, the engagement leader may be able to depend on the firm's technological development, implementation and maintenance programmes when using firm-approved technology to perform procedures.

Competence and Capabilities of the Engagement Team (Ref: Para. 42)

A98. When determining that the engagement team has the appropriate sustainability competence and competence and capabilities in assurance skills and techniques, the engagement leader may take into consideration such matters as the team's:

- Understanding of, and practical experience with, sustainability assurance engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional requirements and applicable legal and regulatory requirements applicable to the engagement.
- Expertise in the sustainability matters relevant to the engagement.
- Expertise in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the engagement.
- Knowledge of relevant industries in which the entity operates.
- Knowledge of laws, regulations or business practices relevant to the entity's operations in a particular jurisdiction.
- Ability to exercise professional scepticism and professional judgement.
- Understanding of the firm's policies or procedures.

A99. Sustainability assurance engagements may relate to a wide range of sustainability matters that require specialised skills and knowledge beyond those possessed by the engagement leader and other members of the engagement team and for which the work of a practitioner's expert is used. A practitioner's expert may be either a practitioner's internal expert (who is a member of the engagement team), or a practitioner's external expert. A practitioner's

internal expert may be a partner or staff (i.e., personnel), including temporary staff, of the practitioner's firm or a network firm. A practitioner's expert may be needed to assist the practitioner in one or more areas.

Examples:

- Obtaining an understanding of the entity and its environment, including its internal control.
- Performing risk assessment procedures.
- Responding to risks, including determining and implementing overall responses to assessed risks of material misstatement of the sustainability information.
- Evaluating the sufficiency and appropriateness of evidence obtained in forming a conclusion on the sustainability information.

A100. Considerations when deciding whether to use a practitioner's expert may include:

- Whether management has used a management's expert in preparing the sustainability information (see paragraph A101).
- The nature and significance of the sustainability information, including its complexity.
- The assessed risks of material misstatement.
- The expected nature of procedures to respond to identified risks, including the practitioner's knowledge of and experience with the work of experts in relation to such matters, and the availability of alternative sources of evidence.

A101. When management has used a management's expert in preparing the sustainability information, the practitioner's decision on whether to use a practitioner's expert may also be influenced by such factors as:

- The nature, scope and objectives of the management's expert's work.
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- The extent to which management can exercise control or influence over the work of the management's expert.
- The management's expert's competence and capabilities.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- Any controls within the entity over the management's expert's work.

A102. The more complex the engagement, including its geographical spread and the extent to which information is derived from the entity's value chain, the more necessary it may be to consider how the work of a practitioner's expert or another practitioner is to be integrated across the engagement.

Sufficient and Appropriate Involvement in the Work of a Firm Other than the Practitioner's Firm (Ref: Para. 43)

A103. Paragraph 31 requires the engagement leader to be sufficiently and appropriately involved throughout the engagement. Paragraphs A75 and A79 provide examples of ways in which the engagement leader may demonstrate sufficient and appropriate involvement in the engagement. When the practitioner intends to obtain evidence from using work that has been performed, or will be performed, by a firm other than the practitioner's firm, these examples may assist the engagement leader in determining whether it is possible for the engagement leader to be sufficiently and appropriately involved in that work.

A104. When work is performed in relation to sustainability information of a group component, there is a presumption that the practitioner would ordinarily be sufficiently and appropriately involved in that work.

A105. In certain circumstances, the practitioner may become aware that a separate engagement on sustainability information for a group component has been performed by a firm (including another office of the practitioner's firm or a network firm). For example, that firm may have performed a separate assurance engagement on greenhouse gas emissions of a subsidiary that are included in the group sustainability information. Although the practitioner is unable to be involved because the separate engagement has already been completed, the practitioner may still intend to obtain evidence from using the work of that other firm for the group sustainability assurance engagement. In these circumstances, the requirements in paragraphs 50–55 would apply, including determining whether the evidence obtained from that other practitioner's work is adequate for the practitioner's purposes. If a similar separate engagement is expected to be performed in subsequent years relating to that group component, the practitioner would be able to consider it in developing the overall strategy and engagement plan for the group engagement, including the involvement of that other firm as a component practitioner (see paragraph 96).

A106. An inability to be sufficiently and appropriately involved in the work of a firm other than the practitioner's firm may arise because the work has already been performed, the practitioner's access to the work of that firm is restricted by law or regulation, or the work relates to a value chain component and neither the entity's management nor the practitioner have any rights of access to that other firm's work. Similarly, if the extent of the engagement leader's involvement does not provide the basis for determining that the significant judgements made and the conclusions reached in relation to the work of a firm other than the practitioner's firm are appropriate, the engagement leader is ordinarily not able to conclude that they can be sufficiently and appropriately involved. The engagement leader may also take account of firm policies or procedures in making the determination in accordance with paragraph 43.

Insufficient or Inappropriate Resources Assigned or Made Available (Ref: Para. 44)

A107. The engagement leader's determination that the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement, and the appropriate actions to take, are matters of professional judgement. For example, if an assurance software programme provided by the firm has not incorporated new or revised procedures related to sustainability disclosures required by new or revised framework criteria, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the engagement.

A108. For a group sustainability assurance engagement, the engagement leader's determination about whether the resources assigned or made available are sufficient and appropriate may include considering whether there is a need to involve component practitioners with knowledge and experience of the laws, regulations, language or culture in certain jurisdictions.

A109. If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include:

- Changing the planned approach to the nature, timing and extent of direction, supervision and review (see also paragraph 47).
- Discussing an extension to the entity's reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation.
- Following the firm's policies or procedures for resolving differences of opinion if the engagement leader does not obtain the necessary resources for the engagement.
- Following the firm's policies or procedures for withdrawing from the engagement, when withdrawal is possible under applicable law or regulation.

Using the Resources Assigned or Made Available (Ref: Para. 45)

A110. The firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm-approved technological tools to perform procedures and may require the involvement of

individuals with specialised skills or expertise in evaluating or analysing the output. The engagement team may be required, in accordance with the firm's policies or procedures, to use the firm's assurance methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, an industry-specific assurance methodology or related guides and performance aids.

Direction, Supervision and Review

Engagement Leader's Responsibility for Direction, Supervision and Review (Ref: Para. 46)

A111. Professional and Ethical Standard 3 requires that direction, supervision and review is planned and performed on the basis that the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members.

A112. Direction and supervision of the engagement team and the review of their work are firm-level responses that are implemented at the engagement level, of which the nature, timing and extent may be further tailored by the engagement leader in managing the quality of the engagement. Accordingly, the approach to direction, supervision and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The approach will ordinarily include a combination of addressing the firm's policies or procedures and engagement specific responses.

A113. When an engagement is not carried out entirely by the engagement leader, or when the nature and circumstances of the engagement are more complex (e.g., when there are members of the engagement team spread across multiple jurisdictions), it may be necessary for the engagement leader to assign direction, supervision, and review to other members of the engagement team. However, as part of the engagement leader's overall responsibility for managing and achieving quality on the engagement and to be sufficiently and appropriately involved, the engagement leader is required to determine that the nature, timing and extent of direction, supervision and review is undertaken in accordance with paragraph 47. In such circumstances, personnel or members of the engagement team may provide information to the engagement leader to enable the engagement leader to make the determination required by paragraph 47.

Direction

A114. Direction of the engagement team may involve informing the members of the engagement team of their responsibilities, such as:

- Contributing to the management and achievement of quality at the engagement level through their personal conduct, communication and actions.
- Maintaining a questioning mind and being aware of unconscious or conscious biases in exercising professional scepticism when gathering and evaluating evidence.
- Addressing threats to the achievement of quality, and the engagement team's expected response. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned procedures or failing to perform planned procedures.
- Fulfilling relevant ethical requirements.
- Understanding the objectives of the work to be performed and the detailed instructions regarding the nature, timing and extent of planned assurance procedures.
- The responsibilities of respective engagement team members to perform procedures, and of more experienced engagement team members to direct, supervise and review the work of less experienced engagement team members.

Supervision

A115. Supervision may include matters such as:

- Tracking the progress of the engagement, which includes monitoring:
  - The progress against the engagement plan;
  - Whether the objective of work performed has been achieved; and
  - The ongoing adequacy of assigned resources.
- Taking appropriate action to address issues arising during the engagement, including for example, reassigning planned procedures to more experienced engagement team members when issues are more complex than initially anticipated.
- Identifying matters for consultation or consideration by more experienced engagement team members during the engagement.
- Providing coaching and on-the-job training to help engagement team members develop skills or competencies.
- Creating an environment where engagement team members raise concerns without fear of reprisals.

Review

A116. Review of the engagement team's work consists of consideration of whether, for example:

- The work has been performed in accordance with the firm's policies or procedures, professional requirements and applicable legal and regulatory requirements.
- Significant matters have been raised for further consideration.
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented.
- There is a need to revise the nature, timing and extent of work performed.
- The work performed supports the conclusions reached and is appropriately documented.
- The evidence obtained is sufficient and appropriate to provide a basis for the practitioner's conclusion.
- The objectives of the procedures have been achieved.

Determining the Nature, Timing and Extent of Direction, Supervision and Review (Ref: Para. 47)

A117. The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement leader in fulfilling the requirements of this ISSA (NZ), and in concluding that the engagement leader has been sufficiently and appropriately involved throughout the engagement in accordance with paragraph 186(d)(i).

A118. The approach to direction, supervision and review may be tailored depending on, for example:

- The engagement team member's previous experience with the entity and the subject matter.
- The complexity of the engagement.
- The assessed risks of material misstatement.
- The competence and capabilities of the individual engagement team members performing the work.
- The manner in which the reviews of the work performed are expected to take place (remote or in-person).
- The structure of the engagement team and the location of engagement team members.
- Whether engagement team members are from the practitioner's firm, a network firm, or a firm that is not a network firm.

Review of Engagement Documentation (Ref: Para. 48)

A119. Timely review of engagement documentation by the engagement leader at appropriate stages throughout the engagement enables significant matters to be resolved to the engagement leader's satisfaction on or before the date of the practitioner's report. The engagement leader need not review all engagement documentation.

A120. The engagement leader exercises professional judgement in identifying significant judgements made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgements. Significant judgements may include matters related to planning and performing the engagement, as well as the conclusions reached by the engagement team.

Examples of significant judgements:

- Whether the scope of the sustainability information to be reported and the scope of the assurance engagement are appropriate in the circumstances.
- Matters related to planning the engagement, such as the consideration or determination of materiality.
- The composition of the engagement team, including personnel with expertise in one or more sustainability matters addressed in the engagement.
- The decision to involve a practitioner's expert, including the decision to involve an external expert.
- The engagement team's risk assessment procedures, including situations when the identification and assessment of the risks of material misstatement requires significant judgement by the engagement team.
- For a group sustainability assurance engagement:
    - The proposed approach to the engagement for addressing where, and by whom, evidence needs to be obtained.
    - Decisions about the involvement of component practitioners and using the work of another practitioner, including, for example, in areas of higher assessed risk of material misstatement of the sustainability information.
- Results of the procedures performed on areas of the engagement involving significant management judgement.
- The evaluation of the work performed by a practitioner's external expert or another practitioner, and conclusions drawn therefrom.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The evaluation of matters that may affect the assurance report, including modification of the practitioner's conclusion.

A121. The engagement leader exercises professional judgement in determining other matters to review, for example based on:

- The nature and circumstances of the engagement.
- Which engagement team member performed the work.
- Matters relating to recent inspection findings.
- The requirements of the firm's policies or procedures.

Review of Formal Written Communications (Ref: Para. 49)

A122. The engagement leader uses professional judgement in determining which written communications to review, taking into account the nature and circumstances of the engagement. For example, it may not be necessary for the

engagement leader to review communications between the engagement team and management in the ordinary course of the engagement.

Using the Work of Others

Using the Work of Another Practitioner (Ref: Para. 50–55)

A123. Using the work of another practitioner may include using work that has already been completed, or that is yet to be performed but will be completed prior to completion of the practitioner's engagement. Such work may specifically relate to sustainability matters or may be other assurance or non-assurance work that, in the practitioner's judgement, is relevant to the sustainability assurance engagement. The practitioner exercises professional judgement in determining whether the work of another practitioner is relevant to, and is appropriate for purposes of the practitioner's engagement, and the extent to which such work can be used in the circumstances. The extent of the practitioner's procedures to evaluate the work of another practitioner in accordance with paragraph 50 is influenced by:

- The overall significance of the work to the practitioner's engagement. For example, the greater the significance to the overall sustainability information of the disclosures for which the practitioner intends to obtain evidence from using the work of another practitioner, the more extensive the practitioner's procedures are likely to be, including communication with another practitioner and determining whether it is necessary to review additional documentation of the work of that practitioner in accordance with paragraph 54;
- The ability of the practitioner to obtain access to another practitioner and their work. For example, when the work of another practitioner relates to information from a value chain component, neither the reporting entity's management nor the practitioner may have rights of access to that other firm or its work. Paragraph A135 explains circumstances in which a limitation on scope may arise in relation to using the work of another practitioner; and
- Whether a one-to-many report of another practitioner is available (see paragraph 51).

A124. The guidance in paragraphs A136–A151 for using the work of a practitioner's expert may also be helpful when obtaining evidence from using the work of another practitioner, in particular, the considerations described in paragraphs A137 and A151.

Complying with relevant ethical requirements that apply to using the work of another practitioner (Ref: Para. 50(a))

A125. Relevant ethical requirements may include provisions addressing the fulfilment of the practitioner's ethical responsibilities related to using the work of another practitioner. These responsibilities may vary depending on whether the work performed by another practitioner is assurance or non-assurance work.

A126. Whether an engagement performed by another practitioner is an assurance engagement depends on the circumstances. Considerations that may be relevant in distinguishing an assurance engagement from a non-assurance engagement include:

- The nature of the engagement. For example, agreed-upon procedures engagements performed in accordance with International Standard on Related Services (New Zealand) 4400[8] and consulting (or advisory) engagements are not assurance engagements.
- The nature of the procedures performed on the engagement. For example, a validation or verification engagement may be an assurance engagement if it is performed in accordance with recognised standards that enable the practitioner to design and perform procedures aimed at gathering sufficient appropriate evidence to support an assurance conclusion.
- The wording of the report of another practitioner. For example, the report for an assurance engagement includes the practitioner's opinion, conclusion or other form of assurance statement based on the procedures performed and evidence obtained. Reports that only provide the practitioner's findings would not be

[8] International Standard on Related Services (New Zealand) (ISRS (NZ)) 4400, *Agreed-Upon Procedures Engagements*

considered assurance engagements.

Evaluating the competence and capabilities of another practitioner (Ref: Para. 50(b))

A127. Determining whether another practitioner has the appropriate competence and capabilities is a matter of professional judgement and is influenced by the nature and circumstances of another practitioner's work. The sources described in paragraph A141 related to the work of a practitioner's expert may also be relevant when evaluating the competence and capabilities of another practitioner. Other factors that may be relevant include the consistency or similarity of laws and regulations, language and culture. When another practitioner is another firm within the same network as the practitioner's firm and is subject to common network requirements or uses common network services, the practitioner may be able to depend on such network requirements, for example, those addressing professional training or recruitment, or that require the use of common systems, policies, methodologies and related implementation tools.

Evaluating the nature, scope and objectives of another practitioner's work (Ref: Para. 50(c))

A128. Evaluating whether the nature, scope and objectives of another practitioner's work are appropriate for the practitioner's purposes may include obtaining an understanding of:

- The nature of the engagement performed by another practitioner, including whether it is a limited or reasonable assurance engagement, and whether that engagement exhibits a rational purpose;
- The applicable criteria relevant to that assurance engagement;
- The scope of the engagement;
- Whether the work performed was undertaken in accordance with recognised standards;
- Whether the work performed includes tests of controls, substantive procedures or both; and
- Whether the work performed has been supported by firm-level policies or procedures designed to address quality management.

Obtaining and evaluating a one-to-many report (Ref: Para. 51–52)

A129. The practitioner's evaluation of the work of another practitioner may include obtaining and evaluating a one-to-many report as described in paragraph 51. Such a report may identify assurance procedures and the results of those procedures, including exceptions, and other related information that could affect the practitioner's conclusions. Exceptions noted by another practitioner, or a modified conclusion, in such a report does not automatically mean that the report will not be useful for the assurance engagement on the reporting entity's sustainability information. Rather, the exceptions, or the matter giving rise to a modified conclusion, in the one-to-many report are considered in the context of the significance to users of the reported information. In considering the exceptions or matters giving rise to a modified conclusion, the practitioner may seek to discuss such matters with that other practitioner, if possible in the circumstances. Such communication is dependent upon the reporting entity contacting the value chain entity, and obtaining that entity's approval for the communication to take place.

A130. Depending on the nature of the information that is the subject of the one-to-many report, or other relevant assurance report of another practitioner, that report may identify complementary user entity controls that, if relevant to the user entity, may need to be designed and implemented by the user entity to have an appropriate basis for using the information obtained in preparing the sustainability information.

A131. The practitioner may determine that the one-to-many report does not provide sufficient appropriate evidence (e.g., the description of the procedures performed and results thereof may not provide sufficient evidence for the practitioner's purposes). In such circumstances, the practitioner may consider whether it is practicable to supplement the understanding of another practitioner's procedures and conclusions by communicating with that practitioner. If not practicable in the circumstances, the practitioner may need to perform other procedures to obtain sufficient appropriate evidence about the information from that value chain entity.

Communications with another practitioner (Ref: Para. 53)

A132. Relevant matters that the engagement team may request another practitioner to communicate include:

- Whether the other practitioner has complied with ethical requirements that are relevant to the engagement, including independence for an assurance engagement.
- Information about instances of non-compliance with laws and regulations that could give rise to a material misstatement of the sustainability information.
- A list of uncorrected misstatements identified by another practitioner during the engagement that are not clearly trivial.
- Indicators of possible bias in the preparation of relevant information.
- Description of any deficiencies in internal control identified by the other practitioner during the engagement.
- Other significant matters that another practitioner has communicated or expects to communicate to the entity, including fraud or suspected fraud.
- Any other matters that may be relevant to the sustainability information, or that another practitioner wishes to draw to the attention of the engagement team, including exceptions noted in any written representations that another practitioner requested from the component entity.
- The other practitioner's overall findings, conclusion or opinion.

A133. If the practitioner determines that another practitioner's communications are not adequate for the practitioner's purposes, the practitioner may consider whether, for example:

- Further information can be obtained from another practitioner (e.g., through further discussions or meetings);
- Review of additional documentation of another practitioner may provide the practitioner with further information; or
- There are any concerns about another practitioner's competence or capabilities.

Reviewing additional documentation of work performed by another practitioner (Ref: Para. 54)

A134. Determining whether to review additional documentation of another practitioner may include consideration of:

- The nature, timing and extent of the work performed by another practitioner;
- The competence and capabilities of another practitioner; and
- The significant judgements made by, and the findings or conclusions of, another practitioner about matters that are material to the sustainability information.

Evidence obtained from work of another practitioner inadequate for practitioner's purposes (Ref: Para. 55)

A135. A scope limitation exists when the practitioner is unable to:

- Obtain evidence from the work of another practitioner that is adequate for the practitioner's purposes; and
- Obtain, through alternative means, sufficient appropriate evidence over the disclosures for which the practitioner intended to use the work of another practitioner as evidence.

In such circumstances, the practitioner considers the implications for the engagement and the assurance report in accordance with paragraph 185.

Using the Work of a Practitioner's Expert (Ref: Para. 56–57)

A136. The practitioner has sole responsibility for the assurance conclusion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's expert. Nonetheless, if the practitioner using the

work of a practitioner's expert, having followed this ISSA (NZ), concludes that the work of that expert is adequate for the practitioner's purposes, the practitioner may accept that expert's findings or conclusions in the expert's field as appropriate evidence.

A137. The nature, timing and extent of procedures to fulfil the requirement in paragraphs 56–57 will vary depending on the circumstances. Relevant considerations may include:

- The significance of the practitioner's expert's work in the context of the engagement (see also paragraph A140).
- The nature of the disclosure(s) to which that expert's work relates.
- The assessed risks of material misstatement of the sustainability information to which that expert's work relates.
- The practitioner's knowledge of and experience with previous work performed by that expert.

A138. Agreement on the respective roles and responsibilities of the practitioner and the practitioner's expert may also include agreement about access to, and retention of, each other's engagement documentation. A practitioner's internal expert is a member of the engagement team and therefore that expert's working papers form part of the engagement documentation.

A139. Effective two-way communication facilitates the proper integration of the nature, timing and extent of the practitioner's expert's procedures with other work on the assurance engagement, and appropriate modification of the practitioner's expert's objectives during the course of the engagement. Identification of specific partners or staff who will liaise with the practitioner's expert, and procedures for communication between that expert and the entity, assists timely and effective communication, particularly on larger engagements.

A140. When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 56 at the engagement acceptance or continuance stage. This is particularly so when the work of the practitioner's expert will be fully integrated with the work of other assurance personnel and when the work of the practitioner's expert is to be used in the early stages of the engagement, for example, during initial planning and risk assessment procedures.

Evaluating the competence, capabilities and objectivity of a practitioner's expert (Ref: Para. 56(a))

A141. The competence, capabilities and objectivity of a practitioner's expert are factors that significantly affect whether the work of the practitioner's expert will be adequate for the practitioner's purposes. Information regarding the competence, capabilities and objectivity of a practitioner's expert may come from a variety of sources.

Examples:

- Personal experience with previous work of that expert.
- Discussions with that expert.
- Discussions with other practitioners or others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Understanding whether that expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body.
- Published papers or books written by that expert.
- The practitioner's firm's system of quality management (see paragraphs A68–A74).

A142. A practitioner's internal expert that is a partner or staff of a network firm is subject to the firm's policies or procedures for network requirements and network services established as part of the firm's system of quality

management. In some instances, the practitioner's internal expert of a network firm may be subject to common quality management policies or procedures as the practitioner's firm, given that they are part of the same network.

A143. Quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the engagement. The practitioner may be able to depend on the firm's related policies or procedures regarding the evaluation of the adequacy of an internal expert's work. For example, the firm's training programmes may provide internal experts with an appropriate understanding of the interrelationship of their expertise with the assurance process. Reliance on such training may affect the nature, timing and extent of the practitioner's procedures to evaluate the adequacy of the practitioner's internal expert's work.

A144. Professional and Ethical Standard 3 requires the firm to have policies or procedures to address quality risks arising from the use of resources from a service provider, which includes the use of an external expert. A practitioner's external expert is not a member of the engagement team and may not be subject to the firm's policies or procedures under its system of quality management.

Evaluating the competence, capabilities and objectivity of a practitioner's external expert (Ref: Para. 56(a)–(b))

A145. Relevant ethical requirements applicable to the practitioner when using the work of a practitioner's external expert may include provisions addressing the fulfilment of the practitioner's ethical responsibilities related to evaluating whether an external expert has the necessary competence, capabilities and objectivity for the practitioner's purposes. Such provisions may prohibit the practitioner from using the work of a practitioner's external expert if the practitioner:

(a) Is unable to determine whether the external expert has the necessary competence or capabilities, or is objective;

(b) Has determined that the external expert does not have the necessary competence or capabilities; or

(c) Has determined that it is not possible to eliminate circumstances that create threats to the expert's objectivity, or apply safeguards to reduce such threats to an acceptable level.

A146. The evaluation of whether the threats to objectivity are at an acceptable level may depend upon the role of the practitioner's external expert and the significance of the expert's work in the context of the engagement. In some cases, it may not be possible to eliminate circumstances that create threats or apply safeguards to reduce threats to an acceptable level, for example, if a proposed practitioner's external expert is an individual who has played a significant role in preparing the sustainability information.

A147. When evaluating the objectivity of a practitioner's external expert, it may be relevant to:

- Enquire also of the appropriate party(ies) about any known interests or relationships that the appropriate party(ies) has with the expert that may affect that expert's objectivity.
- Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert, and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that may be relevant to discuss with the expert include:
    - Financial interests.
    - Business and personal relationships.
    - Provision of other services by that expert.

In some cases, it may also be appropriate for the practitioner to obtain a written representation from the practitioner's external expert about any interests or relationships with the entity or engaging party of which that expert is aware.

Understanding the field of expertise of a practitioner's expert (Ref: Para. 56(c))

A148. Having a sufficient understanding of the field of expertise of the practitioner's expert enables the practitioner to:

(a) Agree with the practitioner's expert on the nature, scope (including, when applicable, the materiality for quantitative disclosures to be applied or other considerations of materiality for qualitative disclosures) and objectives of that expert's work for the practitioner's purposes;

(b) Understand what assumptions, data and methods, including models as applicable, are used by the practitioner's expert, and whether they are generally accepted within that expert's field and appropriate in the circumstances of the engagement; and

(c) Evaluate the adequacy of that expert's work for the practitioner's purposes.

Agreement with the practitioner's expert (Ref: Para. 56(c)–(d))

A149. The nature, scope and objectives of the practitioner's expert's work may vary considerably with the circumstances, as may the respective roles and responsibilities of the practitioner and the practitioner's expert, and the nature, timing and extent of communication between the practitioner and the practitioner's expert. It is therefore required that these matters are agreed between the practitioner and the practitioner's expert regardless of whether the expert is a practitioner's external expert or a practitioner's internal expert.

A150. The matters noted in paragraph A137 may affect the level of detail and formality of the agreement between the practitioner and the practitioner's expert, including whether it is appropriate that the agreement be in writing. For example, the following factors may suggest the need for more a detailed agreement than would otherwise be the case, or for the agreement to be set out in writing:

- The practitioner's expert will have access to sensitive or confidential entity information.
- The respective roles or responsibilities of the practitioner and the practitioner's expert are different from those normally expected.
- Multi-jurisdictional legal or regulatory requirements apply.
- The matter to which the practitioner's expert's work relates is highly complex.
- The practitioner has not previously used work performed by that expert.
- The greater the extent of the practitioner's expert's work, and its significance in the context of the engagement.

Evaluating the adequacy of the practitioner's expert's work (Ref: Para. 57)

A151. Procedures to evaluate the adequacy of the practitioner's expert's work for the practitioner's purposes may include:

- Enquiries of the practitioner's expert.
- Reviewing the practitioner's expert's working papers and reports.
- Corroborative procedures, such as:
    - Observing the practitioner's expert's work;
    - Examining published data, such as statistical reports from reputable, authoritative sources;
    - Confirming relevant matters with third parties;
    - Performing detailed analytical procedures; and
    - Reperforming calculations.
- Discussion with another expert with relevant expertise when, for example, the findings or conclusions of the practitioner's expert are not consistent with other evidence obtained by the practitioner.
- Discussing the practitioner's expert's report with management.

Using the Work of the Internal Audit Function (Ref: Para. 59)

A152. In determining whether the work of the internal audit function can be used for purposes of the engagement, a first consideration is whether the planned nature and scope of the work of the internal audit function that has been performed, or is planned to be performed, is relevant to the practitioner's approach to the engagement.

A153. The extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors and the level of competence of the function are particularly important in determining whether to use and, if so, the nature and extent of the use of the work of the function that is appropriate in the circumstances.

A154. Factors that may affect the practitioner's evaluation of whether the internal audit function applies a systematic and disciplined approach include the following:

- The existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programmes, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.
- Whether the internal audit function has appropriate quality control policies and procedures, for example, policies and procedures that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.

Communications Among Those Involved in the Engagement (Ref: Para. 60)

A155. Clear and timely communication about responsibilities, along with clear direction about the nature, timing and extent of the work to be performed, and the matters expected to be communicated to the practitioner, helps establish the basis for effective two-way communication. Effective two-way communication also helps to set expectations for work performed at various locations (e.g., by component practitioners) and facilitates the practitioner's direction, supervision and review of that work. Such communication also provides an opportunity for the engagement leader to reinforce the need to exercise professional scepticism in performing the work.

A156. Other factors that may also contribute to effective two-way communication include:

- Clarity of any instructions issued (e.g., to a component practitioner).
- A mutual understanding of relevant issues and the expected actions arising from the communication process.
- The form of communications. For example, matters that need timely attention may be more appropriately discussed in a meeting rather than by exchanging emails.
- A mutual understanding between the practitioner and component practitioner about which individuals have responsibility for managing communications regarding particular matters.
- The process for reporting back to the practitioner on the results of the work performed or significant issues encountered in performing the work.

A157. The communications depend on the facts and circumstances of the engagement, including, for example, the nature and extent of involvement of component practitioners and the degree to which the practitioner and component practitioners are subject to common systems of quality management, or the involvement of a practitioner's external expert.

A158. The form of the communications may be affected by such factors as:

- The significance, complexity or urgency of the matter.
- Whether the matter has been or is expected to be communicated to the entity's management or those charged with governance.

A159. The appropriate timing of communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and extent of work to be performed by others. For example, communications regarding planning matters may often be made early in the engagement and, for an initial sustainability assurance engagement, may be made as part of agreeing the terms of the engagement.

Monitoring and Remediation (Ref: Para. 63)

A160. In considering information communicated by the firm through its monitoring and remediation process and how it may affect the engagement, the engagement leader may consider the remedial actions designed and implemented by the firm to address identified deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement leader may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement leader may determine that:

- A practitioner's expert is needed; or
- The nature, timing and extent of direction, supervision and review needs to be enhanced in an area of the engagement where deficiencies have been identified.

If an identified deficiency does not affect the quality of the engagement (e.g., if it relates to a technological resource that the engagement team did not use) then no further action may be needed.

A161. A deficiency in the firm's system of quality management does not necessarily indicate that an assurance engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the practitioner's report was not appropriate.

Fraud and Non-Compliance with Laws and Regulations

Fraud (Ref: Para. 64)

A162. Maintaining professional scepticism requires an ongoing questioning of whether the information and evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information intended to be used as evidence and the controls over its preparation and maintenance where relevant. Due to the characteristics of fraud, the practitioner's professional scepticism is particularly important when considering material misstatement due to fraud, which may include omission of information or deliberate bias. Paragraph A323 provides examples of material misstatements due to fraud in sustainability information. Paragraphs 128L, 128R and 129–131 address the practitioner's required responses to fraud or suspected fraud.

Non-Compliance with Laws and Regulations (Ref: Para. 67)

A163. Relevant ethical requirements may include a requirement to report identified or suspected non-compliance with laws and regulations to an appropriate level of management or those charged with governance. In some jurisdictions, law or regulation may restrict the practitioner's communication of certain matters with the responsible party, management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity. In these circumstances, the issues considered by the practitioner may be complex and the practitioner may consider it appropriate to obtain legal advice.

A164. The reporting of identified or suspected non-compliance with laws and regulations in accordance with law, regulation or relevant ethical requirements may include non-compliance with laws and regulations that the practitioner comes across or is made aware of when performing the engagement, but which may not affect the sustainability information. Under this ISSA (NZ), the practitioner is not expected to have a level of understanding of laws and regulations beyond those affecting the sustainability information. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgement and expertise in responding to such non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

A165. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation, or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.

Communication with Management and Those Charged with Governance (Ref: Para. 68)

A166. In addition to those matters specifically required to be communicated in accordance with this ISSA (NZ), significant matters that the practitioner may consider merit the attention of management or those charged with governance, as appropriate, may include:

- Identified deficiencies in internal control.
- Management bias in the preparation of the sustainability information.
- Material misstatements of the sustainability information or other information that management has refused to correct.
- Reporting policies that are not appropriate or that are inconsistent with the applicable criteria or criteria used in the relevant industry.
- Circumstances that affect the form and content of the assurance report, if any.
- Matters relating to estimates, forward-looking information, and inherent uncertainties, and related disclosures.
- Significant matters discussed or subject to correspondence with management (see also paragraph A167).
- Significant difficulties encountered during the engagement (see also paragraph A168).

A167. Significant matters discussed, or subject to correspondence with management, may include such matters as:

- Significant events or transactions that occurred during the year.
- Concerns about management's use of work of an expert or information obtained from external sources.
- Significant matters on which there was disagreement with management.

A168. Significant difficulties encountered during the engagement may include such matters as:

- Significant delays by management, the unavailability of entity personnel, or an unwillingness by management to provide information necessary for the practitioner to perform procedures.
- An unreasonably brief time within which to complete the engagement.
- Extensive unexpected effort required to obtain sufficient appropriate evidence.
- The unavailability of expected information.
- Restrictions imposed on the practitioner by management.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the practitioner's assurance conclusion.

A169. In addition to communicating with management or those charged with governance, the practitioner may be permitted or required to communicate about certain matters with other relevant parties, such as regulators or prudential supervisors. Such communication may be appropriate throughout the engagement or at particular stages, such as when the practitioner identifies matters that are required to be reported to the regulator or when finalising the assurance report.

Considerations Specific to Public Sector Entities

A170. A public sector practitioner may be obliged to report on identified or suspected non-compliance with laws and

regulations to the legislature or other governing body or to report them in the practitioner's report.

Documentation

Overarching Documentation Requirements

Form, Content and Extent of Engagement Documentation (Ref: Para. 69–71)

A171. A practitioner experienced in sustainability assurance refers to an individual (whether internal or external to the firm) who has practical experience in sustainability assurance, and a reasonable understanding of:

(a) Assurance processes;

(b) ISSAs (NZ) and applicable legal and regulatory requirements;

(c) The business environment in which the entity operates; and

(d) Assurance and sustainability reporting matters relevant to the entity's industry.

A172. Preparing sufficient and appropriate engagement documentation on a timely basis helps to enhance the quality of the assurance engagement and facilitates the effective review and evaluation of the evidence obtained and conclusions reached before the practitioner's report is finalised. Engagement documentation prepared after the assurance engagement work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

A173. The form, content and extent of engagement documentation depend on factors such as:

- The size and complexity of the entity.
- The scope of the assurance engagement and nature of the procedures to be performed. For example, the extent of engagement documentation would ordinarily be less:
  - For a limited assurance engagement compared to a reasonable assurance engagement.
  - When the scope of the assurance engagement includes only certain parts, rather than all, of the sustainability information.
- The assessed risks of material misstatement.
- The significance of the evidence obtained.
- The nature and extent of exceptions identified.
- The need to document a conclusion or the basis for a conclusion not self-evident from the engagement documentation of the work performed or evidence obtained.
- The assurance methodology and tools used.

A174. Judging the significance of a matter requires an objective analysis of the facts and circumstances. Examples of significant matters include:

- Matters that give rise to risks of material misstatement that are assessed higher on the spectrum of risk.
- Results of procedures indicating that the sustainability information could be materially misstated or, in a reasonable assurance engagement, a need to revise the practitioner's previous assessment of the risks of material misstatement and the practitioner's responses to those risks.
- Circumstances that cause the practitioner significant difficulty in applying necessary procedures.
- Findings that could result in a modification to the assurance conclusion or the inclusion of an Emphasis of Matter paragraph in the assurance report.

A175. An important factor in determining the form, content and extent of engagement documentation of significant matters is the extent of professional judgement exercised in performing the work and evaluating the results. Engagement documentation of the professional judgements made, when significant, serves to explain the practitioner's conclusions and to reinforce the quality of the judgement.

A176. Circumstances in which it is appropriate to prepare engagement documentation relating to the use of professional judgement, include matters and judgements that are significant to:

- The rationale for the practitioner's conclusion when a requirement provides that the practitioner "shall consider" certain information or factors, and that consideration is significant in the context of the particular engagement.
- The basis for the practitioner's conclusion on the reasonableness of judgements (for example, the reasonableness of significant estimates).
- The basis for the practitioner's conclusions about the authenticity of a document when further investigation is undertaken in response to conditions identified during the assurance engagement that caused the practitioner to believe that the document may not be authentic.

A177. It is neither necessary nor practical to document every matter considered, or professional judgement made, during an engagement. Further, it is unnecessary for the practitioner to document separately (e.g., through a checklist) compliance with matters for which compliance is demonstrated by documents included within the assurance engagement file.

A178. The requirement to document who reviewed the work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what work was reviewed, who reviewed such work, and when it was reviewed.

A179. Documentation of discussions of significant matters with management, those charged with governance, and others is not limited to records prepared by the practitioner, but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the practitioner. Others with whom the practitioner may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity.

Assembly of the Final Engagement File (Ref: Para. 72)

A180. Professional and Ethical Standard 3 requires firms to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement report. An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.

A181. The completion of the assembly of the final engagement file after the date of the assurance report is an administrative process that does not involve the performance of new procedures or the drawing of new conclusions. Changes may, however, be made to the engagement documentation during the final assembly process if they are administrative in nature. Examples of such changes include:

- Deleting or discarding superseded documentation.
- Sorting, collating and cross-referencing working papers.
- Signing off on completion checklists relating to the file assembly process.
- Documenting evidence that the practitioner has obtained, discussed and agreed with the relevant members of the engagement team before the date of the assurance report.

A182. Professional and Ethical Standard 3 requires firms to establish a quality objective that addresses the maintenance and retention of engagement documentation to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards. The retention period for assurance engagements ordinarily is no shorter than five years from the date of the assurance report.

Documentation Related to Quality Management (Ref: Para. 74)

A183. When dealing with circumstances that may pose risks to achieving quality on the engagement, the exercise of professional scepticism, and the engagement documentation of the practitioner's consideration thereof, may be important. For example, if the engagement leader obtains information that may have caused the firm to decline the engagement (see paragraph 29), the engagement documentation may include explanations of how the engagement team dealt with the circumstance.

Preconditions for an Assurance Engagement

Establishing Whether the Preconditions Are Present

Obtaining a Preliminary Knowledge of the Engagement Circumstances (Ref: Para. 75–76)

A184. In order to establish whether the preconditions are present, the practitioner applies the preliminary knowledge obtained of the engagement circumstances (see the definition in paragraph 18) and holds discussions with the appropriate party(ies) in accordance with paragraph 76. The practitioner uses professional judgement to determine the nature and extent of the preliminary knowledge. The preliminary knowledge that the practitioner obtains ordinarily differs in nature, and is less in extent, than the understanding obtained when performing the engagement.

Obtaining a Preliminary Knowledge of the Scope of the Proposed Assurance Engagement (Ref: Para. 75(b))

A185. The scope of the assurance engagement may extend to all of the sustainability information to be reported by the entity (e.g., the entity's sustainability report), or only part of it (e.g., it may be limited to specific disclosures such as assurance on key performance indicators for product recycling rates). Also, the scope of the proposed assurance engagement may encompass the reporting boundary covered by the sustainability information to be reported, or only certain jurisdictions, entities, operations or facilities within the reporting boundary. The reporting boundary within the scope of the assurance engagement may be established by law, regulation or professional requirements, or it may be determined by the appropriate party(ies).

Considerations Specific to Public Sector Entities (Ref: Para. 76)

A186. In the absence of indications to the contrary, in a public sector environment some of the preconditions for an assurance engagement may be presumed to be present, for example:

(a) The roles and responsibilities of public sector entity management, or those charged with governance, when appropriate, may be presumed to be suitable in the circumstances, because they are generally set out in legislation;

(b) A rational purpose is generally exhibited because the engagement is set out in legislation; and

(c) The practitioner's conclusion, in a form appropriate for the engagement, is generally required by legislation to be contained in a written report.

Considering Whether the Entity Has a Process to Identify Sustainability Information to Be Reported (Ref: Para. 76(a), Appendix 2)

A187. An assurance engagement is conducted in accordance with this ISSA (NZ) on the basis that management and, where appropriate, those charged with governance, have acknowledged and understand that they have responsibility for:

- The preparation of the sustainability information in accordance with the applicable criteria; and
- For designing, implementing and maintaining a system of internal control that management and, where appropriate, those charged with governance, determine is necessary to enable the preparation of the sustainability information in accordance with the applicable criteria (see paragraph 85).

The entity's information system and communication relevant to the preparation of the sustainability information ordinarily includes the entity's process to identify sustainability information to be reported. In the absence of such

a process it may be difficult to establish whether management or those charged with governance, as appropriate, have a reasonable basis for the sustainability information.

Suitability of the Roles and Responsibilities (Ref: Para. 76(b))

A188. The three parties for an assurance engagement are:

(a) The engaging party;

(b) The practitioner; and

(c) The intended users.

A189. If the engagement does not have at least three parties, it is unable to satisfy all of the elements of an assurance engagement under Explanatory Guide Au1A *Framework for Assurance Engagements*. The practitioner's responses may include:

- Asking the engaging party to change the terms of engagement to reflect a three-party relationship;
- Conducting the engagement as a consulting engagement;
- Performing an agreed-upon procedures engagement; or
- Declining the engagement.

Reasonable Basis for the Sustainability Information (Ref: Para. 76(b))

A190. In evaluating whether management or those charged with governance, as appropriate, have a reasonable basis for the sustainability information, the practitioner may consider whether the entity has a process, including controls, to enable the preparation of the sustainability information that is free from material misstatement. What constitutes a reasonable basis will depend on the nature of the sustainability matters addressed by the sustainability information and other engagement circumstances.

A191. If the practitioner becomes aware that there are deficiencies in the entity's process to prepare the sustainability information that is not within the proposed scope of the assurance engagement and is therefore other information, this may indicate that management or those charged with governance, as appropriate, does not have a reasonable basis for reporting such information. In these circumstances, the implications of the requirements in this standard for other information (see paragraphs 173–176) will have an impact on the practitioner's acceptance of the proposed engagement.

Appropriate Sustainability Matters (Ref: Para. 77)

A192. Whether the sustainability matters within the scope of the engagement are appropriate is not affected by the level of assurance, that is, if a sustainability matter is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa. Therefore, inappropriate sustainability matters for a reasonable assurance engagement cannot be overcome by changing the engagement to a limited assurance engagement.

A193. In evaluating whether the sustainability matters are appropriate, and whether the sustainability information can be subject to procedures for obtaining sufficient appropriate evidence, the practitioner may consider matters such as the characteristics of the sustainability matters (i.e., the degree to which they are qualitative versus quantitative, factual versus judgemental, historical versus forward-looking, and relate to a point in time or cover a period) and the reporting boundary.

Suitability and Availability of Criteria (Ref: Para. 78, 107)

Suitable criteria for only some of the sustainability matters (Ref: Para. 78(a))

A194. If suitable criteria are unavailable for some of the sustainability information subject to the assurance engagement, but the practitioner can identify one or more disclosures for which the criteria are suitable, then an assurance engagement may be performed with respect to those disclosures.

Sources of the criteria (Ref: Para. 78(b))

A195. Criteria may be:

(a) Framework criteria, that is:

(i) Embodied in law or regulation;

(ii) Established for use by certain types of entities by an organisation(s) that is authorised or recognised to promulgate standards for reporting sustainability information that follow a transparent due process involving deliberation and consideration of the views of a wide range of stakeholders;

(iii) Developed collectively by a group that does not follow a transparent due process;

(iv) Published in scholarly journals or books; or

(v) Developed for sale on a proprietary basis;

(b) Entity-developed criteria; or

(c) A combination of framework criteria and entity-developed criteria.

A196. When criteria are selected from multiple frameworks or entity-developed criteria are to be used, the practitioner's evaluation of the suitability of the criteria may be more extensive and the practitioner may need to consider subjectivity or opportunity for management bias in selecting or developing the criteria.

A197. Framework criteria that are embodied in law or regulation or are established by an authorised or recognised organisation that follows a transparent due process may be presumed to be suitable in the absence of indications to the contrary. The entity may select and apply reporting policies to apply the framework criteria as described in paragraph A2.

A198. There may be circumstances when the framework criteria are not suitable on their own and may need to be supplemented by additional framework or entity-developed criteria in order to:

- Be sufficiently prescriptive about the scope of the sustainability matters to be addressed in the sustainability information.
- Address the entity's industry or jurisdictions in which the entity operates, or other factors pertinent to the sustainability information to be reported.
- Avoid vague descriptions of expectations or judgements.

Characteristics of suitable criteria (Ref: Para. 78(c), 107)

A199. Suitable criteria are required for reasonably consistent measurement or evaluation of the sustainability matters within the context of professional judgement. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability of criteria is context-sensitive, that is, it is determined in the context of the engagement circumstances. Even for the same sustainability matters there may be different criteria that will yield a different outcome. Suitable criteria exhibit the following characteristics:

(a) Relevance: Relevant criteria result in sustainability information that assists decision-making by the intended users;

(b) Completeness: Criteria are complete when sustainability information prepared in accordance with them does

not omit relevant factors that could reasonably be expected to affect decisions of intended users made on the basis of that sustainability information. Complete criteria include, where relevant, benchmarks for presentation and disclosure;

(c) Reliability: Reliable criteria allow reasonably consistent measurement or evaluation of the sustainability matters, when used in similar circumstances by different practitioners;

(d) Neutrality: Neutral criteria result in sustainability information that is free from bias as appropriate in the engagement circumstances; and

(e) Understandability: Understandable criteria result in sustainability information that can be understood by the intended users.

A200. The relative importance of each characteristic of the criteria to a particular engagement is a matter of professional judgement.

A201. If the criteria are unsuitable, this cannot be overcome by changing the level of assurance. That is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa.

Availability of the criteria to users (Ref: Para. 78(d))

A202. Criteria being available allows the intended users to understand how sustainability matters have been measured or evaluated. The intended users are unlikely to be able to base decisions on the sustainability information without access to both the framework criteria and any entity-developed criteria supplementing the framework criteria. In determining whether the criteria are available to the intended users, the practitioner may consider whether they will be available in writing, with sufficient detail, sufficiently clear, and including identification of the version of the criteria applied. Criteria may be made available:

(a) Publicly, for example, in published framework criteria or a general-purpose framework that is readily available, such as on a website.

(b) Through inclusion in the sustainability information, in particular for entity-developed criteria.

(c) By general understanding, for example, the criterion for measuring time in hours and minutes.

Ability to Obtain Evidence Needed (Ref: Para. 79(a))

A203. In determining whether the evidence needed to support the practitioner's conclusion can be expected to be obtained, the practitioner may consider:

(a) The characteristics of the sustainability matters and the potential sources of evidence; and

(b) Whether evidence is not available due to the engagement circumstances, even though the evidence could reasonably be expected to exist.

A204. Examples of the nature and availability of evidence that may impact the practitioner's ability to obtain evidence, include:

- The timing of the practitioner's appointment, the entity's document retention policy, inadequate information systems, or a restriction imposed by the appropriate party(ies).
- The nature of the relationship between the appropriate party(ies) affecting the practitioner's ability to access records, documentation, and other information the practitioner may require as evidence to complete the engagement.
- Evidence located at organisations not controlled by the entity, such as entities within the value chain but outside of the reporting entity's control. In such cases, the practitioner may determine whether the entity has contractual arrangements with those organisations to provide access to persons or information, or to

provide independent assurance reports on relevant internal controls or the measurement or evaluation of relevant sustainability matters, or whether the entity has plans to put such arrangements in place.

A205. In some circumstances, the practitioner may conclude that, due to the condition and reliability of an entity's records, it is unlikely that sufficient appropriate evidence will be available to support an unmodified conclusion on the sustainability information. This may occur, for example, when the entity has little experience with the preparation of sustainability information. In such circumstances, it may be more appropriate for the sustainability information to be subject to an agreed-upon procedures engagement or a consulting engagement in preparation for an assurance engagement in a later period. However, such engagements can give rise to potential threats to the practitioner's independence in performing an assurance engagement at a later date.

A206L. The evidence that the practitioner obtains in a limited assurance engagement is more limited than in a reasonable assurance engagement. However, the need for availability and accessibility to evidence is the same regardless of the level of assurance, as the practitioner may be required, in accordance with paragraph 148L, to design and perform additional procedures to obtain further evidence in a limited assurance engagement if the practitioner becomes aware of a matter that causes the practitioner to believe the sustainability information may be materially misstated (see paragraph A232).

Rational Purpose (Ref: Para. 80)

A207. If the assurance engagement is required by law or regulation, the practitioner may presume, in the absence of indications to the contrary, that the engagement has a rational purpose.

A208. Other matters the practitioner may consider in evaluating whether the engagement has a rational purpose, include whether:

- When the engagement is a combined reasonable and limited assurance engagement, there is sufficient justification for the different levels of assurance.
- Management and those charged with governance, if different from the engaging party, have consented to the reporting of the sustainability information.
- When the criteria were selected or developed by the entity, how the intended users were identified in selecting the criteria.
- The degree of judgement and scope for bias in applying the criteria.
- There are any significant limitations on the scope of the practitioner's work.
- The engaging party intends to associate the practitioner's name with the sustainability matters or the sustainability information in an inappropriate manner.

Meaningful level of assurance in a limited assurance engagement (Ref: Para. 80(a))

A209L. The level of assurance the practitioner plans to obtain is not ordinarily susceptible to quantification. Whether the level of assurance is meaningful is a matter of professional judgement for the practitioner to determine in the circumstances of the engagement. In a limited assurance engagement, the procedures performed vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, but are, nonetheless, planned to obtain a level of assurance that is meaningful. To be meaningful the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential.

A210L. Across the range of all limited assurance engagements, what is meaningful assurance can vary from just above assurance that is likely to enhance the intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential to just below reasonable assurance. What is meaningful in a particular engagement represents a judgement within that range that depends on the engagement circumstances, including the information needs of intended users as a group, the criteria, and the sustainability matters of the engagement.

A211L. Some of the factors that may be relevant in determining what constitutes meaningful assurance in a specific

engagement include:

- The characteristics of the sustainability matters and the applicable criteria.
- Instructions or other indications from the appropriate party(ies) about the nature of the assurance. For example, the terms of the engagement may stipulate particular procedures that the appropriate party(ies) considers necessary or particular aspects the appropriate party(ies) would like the practitioner to focus on within the sustainability information that is within the scope of the assurance engagement. However, the practitioner may consider that other procedures are required to obtain sufficient appropriate evidence to obtain meaningful assurance.
- Generally accepted practice with respect to assurance engagements for sustainability information.
- The information needs of intended users as a group. Generally, the greater the consequence to intended users of receiving an inappropriate conclusion when the sustainability information is materially misstated, the greater the assurance that would be needed in order to be meaningful to them. For example, in some cases, the consequence to intended users of receiving an inappropriate conclusion may be so great that a reasonable assurance engagement is needed for the practitioner to obtain assurance that is meaningful in the circumstances.
- The expectation by intended users that the practitioner will form the limited assurance conclusion on the sustainability information within a short timeframe and at a low cost.

Appropriateness of the scope of the assurance engagement (Ref: Para. 80(c))

A212. The practitioner's determination of the appropriateness of the scope of the assurance engagement ordinarily involves the consideration of the results of the practitioner's evaluation or determination, as applicable, of the characteristics in paragraph 78(c).

A213. If the scope of the assurance engagement includes only part of the sustainability information being reported by the entity (e.g., in reporting labour practices, the entity only requires assurance over occupational health and safety disclosures), the practitioner may consider whether the reasons for the scope of the engagement are appropriate.

A214. The entity may not have a reasonable basis for all of the disclosures in the sustainability information, such as when the entity's processes to prepare some or all of the sustainability information are at an early stage of development. In such cases, if permitted by the applicable criteria, it may be possible to include only those areas of the sustainability information where the processes are more developed within the scope of the assurance engagement, because the preconditions have been met for those areas.

A215. In jurisdictions in which law or regulation does not require assurance on sustainability information, and in particular for sustainability information that is reported voluntarily, there may be legitimate reasons for not including all of the sustainability information being reported by the entity within the scope of an assurance engagement. In determining whether the sustainability information within the scope of the engagement is appropriate, the practitioner may consider:

(a) Whether the sustainability information within the scope of the assurance engagement is likely to meet the information needs of intended users; and

(b) How the sustainability information will be presented and whether intended users may misinterpret what has, and has not, been subject to the assurance engagement.

A216. Examples of circumstances when the sustainability information subject to the assurance engagement may not be appropriate include:

- Inadequate justification for not including sustainability information to be reported within the scope of the engagement.

- The assurance engagement excludes sustainability information that can be readily measured or evaluated and the exclusion of this sustainability information from the assurance engagement may be misleading to intended users.
- The assurance engagement excludes sustainability information that may be significant to intended users' decisions.
- The assurance engagement includes sustainability information that may be perceived by intended users as positive, and excludes sustainability information that is negative (e.g., areas where the entity has not met targets or has not taken action to achieve goals).
- The reporting boundary excludes significant entities, operations or facilities, which may be misleading to intended users.

A217. The practitioner's evaluation of the suitability of the criteria may include consideration of criteria for the preparation of any other part(s) of the sustainability information not within the scope of the assurance engagement. This may enable the practitioner to consider matters such as:

- Whether there may be omissions of relevant parts of the sustainability information from the sustainability information within the scope of the assurance engagement, and whether such omissions call into question the rational purpose of the engagement; and
- Whether and how the sustainability information is used in the preparer's own decision-making processes, for example:
    - If information relating to an entity's decisions is important to its stakeholders, then it may be reasonable to expect that the entity would be using that information in its own decision-making.
    - If the entity is using the information in its decision-making, then it may be reasonable to expect that a user may be interested in that information.
    - If the information is not used for the entity's own decision-making, that may raise a question as to why the information is being reported, and whether there may be bias in selecting only sustainability information that are easily subject to an assurance engagement or that present the entity in a positive way.

Preconditions Not Present After Acceptance (Ref: Para. 82–83)

A218. If the practitioner discovers after accepting the engagement that one or more of the preconditions in paragraph 76 are not present, but continues the engagement, the assurance report may address the matter. For example:

- When, in the practitioner's professional judgement the intended users are likely to be misled, since either the applicable criteria are unsuitable, or the sustainability matters are inappropriate, a qualified conclusion or adverse conclusion may be appropriate, depending on how material and pervasive the matter is.
- A qualified conclusion or a disclaimer of conclusion may be appropriate in other circumstances depending on, in the practitioner's professional judgement, the materiality and pervasiveness of the matter.

Terms of the Assurance Engagement

Agreeing the Terms of the Assurance Engagement (Ref: Para. 85)

A219. It is in the interests of both the engaging party and the practitioner for the practitioner to communicate in writing the agreed terms of the engagement before the commencement of the engagement to help avoid misunderstandings. The form and content of the written agreement or contract will vary depending on the engagement circumstances. For example, if law or regulation prescribes in sufficient detail the terms of the engagement, the practitioner need not record them in a written agreement, except for the fact that such law or regulation applies and that the appropriate party(ies) acknowledges and understands its responsibilities under such law or regulation.

A220. When agreeing the terms of engagement, unless restricted by law or regulation, the practitioner may request agreement from management or those charged with governance to provide information or access to persons, such as:

- Access to other practitioners providing audit or assurance reports on part or parts of the other information (e.g., the auditor of the financial statements of the entity if the other information includes the financial statements).
- Authority to obtain information relevant to the assurance engagement on the sustainability information from the other practitioners.
- Authority to share information requested by the financial statement auditor relevant to the audit or review of the financial statements.
- Authority to communicate findings with other practitioners, as appropriate.

A221. In describing the practitioner's responsibilities in the terms of engagement, the practitioner may consider the responsibilities required to be included in the assurance report in accordance with paragraph 190(h).

A222. Law or regulation, particularly in the public sector, may mandate the appointment of a practitioner and set out specific powers, such as the power to access an appropriate party(ies)'s records and other information, and responsibilities, such as requiring the practitioner to report directly to a minister, the legislature or the public if an appropriate party(ies) attempts to limit the scope of the engagement.

Changing the Terms of the Assurance Engagement (Ref: Para. 87)

A223. Examples of when the appropriate party(ies) may request a change to the terms of the assurance engagement and there may not be reasonable justification for doing so include:

(a) The change is to limited assurance from reasonable assurance because of an inability to obtain sufficient appropriate evidence; or

(b) The change is to remove sustainability information from the scope of the assurance engagement to avoid a modification of the assurance conclusion.

A224. A change in circumstances that affects the intended users' needs, or a misunderstanding concerning the nature of the engagement, may justify a request for a change in the engagement, for example, from an assurance engagement to a non-assurance engagement, or from a reasonable assurance engagement to a limited assurance engagement.

Evidence

Designing and Performing Procedures to Obtain Sufficient Appropriate Evidence (Ref: Para. 89)

A225. Evidence is necessary to support the practitioner's conclusion and assurance report. It is cumulative in nature and is primarily obtained from procedures performed during the course of the engagement. It may, however, also include information obtained from other sources, such as previous engagements (provided the practitioner has determined whether changes have occurred since the previous engagement that may affect the relevance of the information to the current engagement), a firm's policies or procedures for acceptance and continuance of client relationships and assurance engagements, or the work of another practitioner. Evidence comprises information that supports or corroborates disclosures, and any information that contradicts disclosures.

A226. The practitioner obtains evidence by designing and performing procedures, including risk assessment procedures and further procedures, to comply with this ISSA (NZ). The nature of a procedure refers to its purpose and its type. Types of procedures include enquiries, inspection, observation, confirmation, recalculation, reperformance and analytical procedures.

Designing and Performing Procedures in a Manner that Is Not Biased (Ref: Para. 89(a))

A227. Unconscious or conscious biases may affect the engagement team's professional judgements in designing and

performing procedures, which may impede the exercise of professional scepticism. An awareness of such biases when designing and performing procedures may help to mitigate impediments to the practitioner's exercise of professional scepticism in critically assessing evidence and determining whether sufficient appropriate evidence has been obtained. Such awareness may also enable the practitioner to design and perform procedures that seek to avoid:

- Placing more weight on evidence that corroborates disclosures than evidence that contradicts or casts doubt on such disclosures (confirmation bias).
- Using an initial piece of information or evidence as an anchor against which subsequent information or evidence is assessed (anchoring bias).
- Placing more weight on information that immediately comes to mind or uses information from sources that are more readily available or accessible (availability bias).
- Placing weight or undue reliance on output from automated systems or information in digital format, or assuming it is relevant and reliable, without performing appropriate procedures (automation bias).
- Placing undue reliance on information prepared by an expert or another practitioner, or assuming the information is relevant and reliable, without performing appropriate procedures (authority bias).

A228. Obtaining evidence in an unbiased manner may involve obtaining information from multiple sources (see also paragraphs A255–A257).

Procedures that Are Appropriate in the Circumstances (Ref: Para. 89(b))

A229. Procedures are appropriate in the circumstances when the nature, timing and extent of such procedures are designed, performed and executed in a manner that achieves the intended purpose of the procedures. The purpose of performing a procedure may be related to risk assessment procedures, further procedures or another procedure to comply with this ISSA (NZ). For example, the purpose may be to obtain evidence about whether an event has occurred or whether the disclosures are complete.

A230. In designing and performing procedures that are appropriate in the circumstances to provide evidence to meet the intended purpose of those procedures, the practitioner's considerations may include whether information intended to be used as evidence:

- Is expected to be available in digital, written or oral form, related to a point in time or for a period, and is to be obtained from internal or external sources.
- Is needed across multiple disclosures and how that affects the nature, timing and extent of evidence needed. For example, the nature and availability of appropriate evidence may vary based on whether the disclosures relate to an entity's processes, governance, controls or key performance indicators, and the characteristics of the disclosures, such as whether they are quantitative, qualitative, historical or forward-looking (see also paragraphs A240–A244).
- Relates to disclosures that include information from the entity's value chain, and how that may affect the ability to obtain sufficient appropriate evidence.
- Will need to be obtained across multiple locations or jurisdictions (e.g., for a group sustainability assurance engagement).
- Relates to disclosures that are factual, judgemental or subject to estimation uncertainty.

A231. In designing and performing procedures, the appropriateness of an approach or technique in selecting items for testing depends on several factors, such as:

- The nature of the sustainability matters or population to be tested.
- The intended purpose of the procedure.
- How the procedure is designed.

- Whether the practitioner is performing the procedure manually or using automated tools and techniques.
- The matters described in paragraph A230 relating to information intended to be used as evidence.
- The persuasiveness of evidence that is needed in the circumstances.

Sufficiency and Appropriateness of Evidence (Ref: Para. 89(b))

A232. The practitioner is required to obtain sufficient appropriate evidence to provide a basis for the assurance conclusion. The sufficiency and appropriateness of evidence are interrelated and together affect the persuasiveness of evidence. In both limited and reasonable assurance engagements, the collective persuasiveness of the evidence obtained establishes the level of assurance obtained. The practitioner aims to obtain evidence that is collectively persuasive to respond to risk considerations. Ordinarily, evidence will be persuasive rather than conclusive. As explained in paragraph A206L, the evidence that the practitioner obtains in a limited assurance engagement is more limited than in a reasonable assurance engagement. However, if the practitioner becomes aware in a limited assurance engagement of a matter(s) that causes the practitioner to believe that the sustainability information may be materially misstated, the practitioner is required to design and perform additional procedures to obtain further evidence.

A233. Sufficiency is the measure of the quantity of evidence. Sufficiency is also affected by the quality of evidence (the higher the quality, the less may be required). Obtaining more evidence, however, may not compensate for its poor quality.

A234R. For reasonable assurance engagements, the quantity of evidence needed is affected by the nature and number of disclosures and the assessment of the risks of material misstatement at the assertion level for those disclosures (the higher the assessed risks, the more evidence is likely to be required).

A235L. For limited assurance engagements, the quantity of evidence needed is affected by the nature and number of disclosures and the assessment of the risks of material misstatement at the disclosure level. As explained in paragraph A209L, the procedures in a limited assurance engagement vary in nature and timing and are lesser in extent than for a reasonable assurance engagement but are, nonetheless, planned to obtain a level of assurance that is meaningful. The sufficiency of evidence is evaluated in that context.

A236. The appropriateness of evidence refers to its quality. The quality of evidence depends on the relevance and reliability of the information intended to be used as evidence as well as the effectiveness of the design of the assurance procedures and the practitioner's application of those procedures. Information that is more relevant and reliable ordinarily is of a higher quality and, therefore, may provide more persuasive evidence. If the evidence is more persuasive, the practitioner may determine that the evidence is sufficient in providing support for the practitioner's conclusions. Alternatively, when evidence is less persuasive, the practitioner may determine that additional evidence is needed. However, increasing the quantity of evidence by performing the same type of procedures may not provide more persuasive evidence in all circumstances.

A237. The practitioner uses professional judgement and exercises professional scepticism in evaluating the sufficiency and appropriateness of evidence to support the assurance conclusion.

A238. Factors that affect the evidence that may be available in the circumstances, in terms of quantity or quality, and therefore impact its sufficiency or appropriateness, include the following:

- The characteristics of the sustainability matters or disclosures. For example, less objective evidence might be expected when the disclosures are forward-looking rather than historical.
- Whether the source of the information used to prepare the disclosures is accessible. For example, if the criteria require the sustainability information to include information from value chain entities outside of the entity's control, there may be limitations on access to such information or to the work of another practitioner that may have provided an assurance report on such information. Such limitations may also affect the practitioner's evaluation of the relevance and reliability of this information intended to be used as evidence (see also paragraphs A236 and A252).

- Other circumstances, such as when evidence that could reasonably be expected to exist is not available because of factors such as those described in paragraph A204.

A239. The procedures designed and performed by the practitioner may also affect the persuasiveness of the evidence obtained. For example, in a reasonable assurance engagement, evaluating the design and implementation of controls relating to processes in the entity's information system that support the preparation of the sustainability information, or external confirmation procedures to obtain evidence about information used by management in preparing the sustainability information, may provide more persuasive evidence than enquiry of management. In a reasonable assurance engagement, enquiry alone ordinarily does not provide sufficient appropriate evidence.

Qualitative Information (Ref: Para. 89(b))

A240. Some qualitative disclosures may be factual and directly observable or otherwise able to be subject to further procedures to gather evidence. However, some qualitative disclosures may be inherently judgemental, not directly observable and may be susceptible to management bias. The practitioner may need to exercise significant professional judgement in evaluating what constitutes sufficient appropriate evidence in these circumstances.

A241. The entity's information system, including internal controls, may be different for quantitative and qualitative information. This may have implications for the practitioner's planned procedures, the ability to obtain the evidence needed about qualitative sustainability information, and the assurance conclusion. For example, when designing and performing procedures for qualitative sustainability information, the practitioner may consider:

- Whether, in the case of a reasonable assurance engagement, substantive procedures alone will provide sufficient appropriate evidence. If not, the practitioner may need to perform tests of controls over the integrity of data, or other controls within the entity's information system that support the preparation of the qualitative information.
- The source of the information intended to be used as evidence, how such information has been captured and processed by the entity's information system, and how this may affect the reliability of the information. For example, information may be captured directly into the entity's information system on a real-time basis without supporting documentation or may be obtained through informal communication.

Forward-looking Information (Ref: Para. 89(b))

A242. Forward-looking information, by its nature, is predictive and may be expressed in both quantitative and qualitative terms. Information about future conditions or outcomes relate to events and actions that have not yet occurred and may not occur, or that have occurred but are still evolving in unpredictable ways. For example, this information may include forecasts or projections, and may relate to the entity's intentions or strategy, future risks and opportunities. While forward-looking information may result from applying criteria to the sustainability matters, the sustainability matters (a future event, occurrence or action) may be subject to greater uncertainty, and ordinarily able to be evaluated with less precision than historical matters. Uncertainty and the need for judgement are also likely to increase the further into the future the period to which the disclosures relate. Unlike historical information, it is not possible for the practitioner to determine whether the results or outcomes forecasted or projected have been or will be achieved or realised. The practitioner may obtain evidence about whether the forward-looking information has been prepared in accordance with the applicable criteria on the basis of the assumptions used by the entity, and:

(a) In the case of forecasts, whether the assumptions used provide a reasonable basis for preparing the sustainability information; or

(b) In the case of projections that use hypothetical assumptions, whether such assumptions are consistent with the purpose of the information.

A243. Evidence may be available to support the assumptions on which the forward-looking sustainability information is based, but such evidence itself may also be forward-looking and, therefore, speculative in nature. Accordingly, the practitioner may need to exercise significant professional judgement in determining whether the evidence is

sufficient and appropriate. In some circumstances, the evidence available may support a range of possible outcomes with the disclosure falling within that range. The practitioner's evaluation of whether the disclosures are reasonable based on the evidence obtained is further addressed in paragraph 179.

A244. The nature and availability of evidence for forward-looking information, and what constitutes sufficient appropriate evidence, will likely vary by topics, aspects of topics and disclosures, and the practitioner's consideration of potential material misstatements. For example:

- When disclosures relate to future strategy, a target, or other intentions of an entity, the practitioner may focus evidence-gathering activities on whether management or those charged with governance have an intention to follow that strategy, the target or intention exists, or there is a reasonable basis for the intended strategy or target (e.g., the practitioner may obtain evidence to support that the entity has the ability to carry out its intent, or is implementing controls over source data and the assumptions on which the strategy is based).
- When disclosures relate to future risks and opportunities, the practitioner may focus evidence-gathering activities on information available from the entity's risk register or records of discussions of those charged with governance if the entity's controls over the maintenance of the risk register and the minuting of discussions provide a reasonable basis for using these sources as evidence. In a reasonable assurance engagement, the practitioner may need to consider obtaining evidence about the effectiveness of the entity's controls.

Information Intended to Be Used as Evidence

Evaluating the Relevance and Reliability of Information Intended to Be Used as Evidence (Ref: Para. 90)

A245. In planning and performing a sustainability assurance engagement, the practitioner may obtain information from a variety of sources and in different forms. Such information ordinarily is expected to result in evidence to support the conclusions that form the basis for the practitioner's assurance conclusion and report. However, such information can become evidence only after procedures are applied to it, including procedures to evaluate its relevance and reliability. For purposes of this ISSA (NZ), this information is referred to as "information intended to be used as evidence."

A246. Factors that may influence the nature, timing and extent of procedures to evaluate the relevance and reliability of information intended to be used as evidence, include:

(a) The source of the information (see paragraphs A255–A257); and

(b) The attributes of relevance and reliability of the information that are considered applicable in the circumstances (see paragraphs A258–A263).

A247. In some circumstances, the procedures to evaluate relevance and reliability may be straightforward (e.g., comparing information used by management to information published by a national government body). In other circumstances, procedures, including tests of controls, may be performed to evaluate the reliability of information (e.g., the accuracy and completeness of information generated internally from the entity's information system).

A248. Evidence from performing other procedures in accordance with this ISSA (NZ) also may assist the practitioner in evaluating the relevance and reliability of information intended to be used as evidence. For example, evidence obtained from:

- The practitioner's understanding of the entity and its environment, the applicable criteria and the entity's system of internal control.
- Tests of controls over the preparation and maintenance of the information.
- Procedures performed when using the work of a practitioner's expert.

Form, availability, accessibility and understandability of information

A249. The form, availability, accessibility and understandability of the information intended to be used as evidence may affect:

(a) The design and performance of the procedures in which the information will be used; and

(b) The practitioner's evaluation of the relevance and reliability of the information.

For example, information may only be available in digital form on a continuous basis. In such circumstances, the practitioner may use automated tools and techniques that are designed to operate on a real-time basis to evaluate the relevance and reliability of the information.

A250. The practitioner may receive information intended to be used as evidence in many forms, ranging from information generated from highly complex automated systems to information manually prepared by management and others within the entity. The practitioner may have an expectation of the form in which information intended to be used as evidence will be received. Remaining alert for information intended to be used as evidence that is received in a form different from the expected form may assist the practitioner in mitigating unconscious biases that may impede the practitioner's exercise of professional scepticism. In addition, receiving information in a form different from that expected may also be relevant to the practitioner's evaluation of the reliability of that information.

A251. Information intended to be used as evidence may exist, but access to such information may be restricted, for example, due to restrictions imposed by law or regulation or the source providing the information (e.g., due to hospital patient confidentiality), or due to war, civil unrest or outbreaks of disease. In some cases, the practitioner may be able to overcome restrictions on access to information. In particular, the practitioner may request management or those charged with governance of the entity to assist in requesting information from a source when contractual obligations exist between an information source and the entity. For example, this may be possible when the reporting entity has a direct business relationship with a value chain entity, such as a large supplier or customer. The practitioner may also consider whether it is possible to visit a location to inspect information that is available but cannot be transferred outside of a jurisdiction.

A252. As explained in paragraph A238, there may be limitations on management's ability to obtain information from value chain entities outside of the entity's control. In these circumstances, the applicable criteria may provide certain relief provisions for management (e.g., the ability to develop estimates using sector-average data after making reasonable efforts to obtain the information). Regardless of any limitations on management's ability to obtain information from such value chain entities, the practitioner is required to obtain sufficient appropriate evidence about the value chain information reported by management. Paragraph A290 describes procedures that may be considered by the practitioner in these circumstances, including testing management's process for obtaining such information.

A253. The practitioner may be unable to obtain sufficient appropriate evidence if the practitioner determines that it is not practicable to obtain information intended to be used as evidence or does not have a sufficient basis to evaluate the relevance and reliability of information (e.g., from an external source). In some circumstances, the practitioner may be able to obtain sufficient appropriate evidence through alternative procedures. An inability to obtain sufficient appropriate evidence requires the practitioner to express a qualified conclusion or disclaim a conclusion on the sustainability information, or withdraw from the engagement if withdrawal is possible under applicable law or regulation, in accordance with paragraph 185.

A254. In some circumstances, specialised skills or knowledge may be needed to understand or interpret the information intended to be used as evidence, for example, emissions data from downstream or upstream entities, water quality or biodiversity measurements. Accordingly, the practitioner may consider using a practitioner's expert to assist in understanding or interpreting the information intended to be used as evidence if the engagement team does not have the appropriate competence and capabilities to do so.

Sources of information

A255. Information intended to be used as evidence may come from internal sources or external sources and may affect

the availability, accessibility and understandability of the information intended to be used as evidence. For example, information may come from:

- The entity's records, management or other sources internal to the entity.
- Other entities within the entity's control.
- Entities in the value chain. For value chain information, the framework criteria may recognise that management's ability to access information directly from value chain entities outside of the entity's control may be limited, and therefore may include provisions that take into account the impact of such limitations on the responsibilities of management. For example, the framework criteria may permit management to use reasonable and supportable information (e.g., publicly available sector-average data) when management is unable to obtain information from the value chain entity after making reasonable efforts to do so. See also paragraphs A289–A290 regarding the impact on the practitioner's work.
- A management's expert.
- A practitioner's expert.
- Independent sources external to the entity, other than a management's or practitioner's expert, that provide information, such as the entity's legal counsel, customers, suppliers, governmental agencies, bank, or general data providers (e.g., entities providing macro-economic, industry or social data).
- A service organisation.
- Another practitioner, which may include a practitioner engaged by an entity to provide a one-to-many report (see paragraph A291).

A256. The practitioner is not required to perform an exhaustive search to identify all possible sources of information to be used as evidence. The practitioner's understanding of the entity and its environment, the applicable criteria and the entity's system of internal control may assist the practitioner in identifying appropriate sources of information.

A257. The practitioner ordinarily obtains more assurance from consistent evidence obtained from different sources or of a different nature than from items of evidence considered individually. In addition, obtaining information intended to be used as evidence from different sources or of a different nature may indicate that an individual item of information intended to be used as evidence is not reliable. For example, corroborative information obtained from a source independent of the entity may increase the assurance the practitioner obtains from a representation from management. Conversely, when evidence obtained from one source is inconsistent with that obtained from another, the practitioner determines what additional procedures are necessary to resolve the inconsistency.

Attributes of relevance and reliability of information

A258. The quality of evidence depends on the relevance and reliability of the information upon which it is based. Whether, and the degree to which, certain attributes of relevant and reliable information are considered applicable in the circumstances is a matter of professional judgement.

Relevance

A259. The principal attribute of the relevance of information intended to be used as evidence deals with the logical connection with, or bearing upon, the purpose of the procedure, including, in a reasonable assurance engagement, the assertion being tested. The degree to which the information relates to meeting the purpose of the procedure may also be a consideration.

Reliability

A260. The reliability of information intended to be used as evidence deals with the degree to which the practitioner may depend on such information. Common attributes that may be applicable when considering the degree to which information intended to be used as evidence is reliable may include whether the information is:

(a) Accurate (free from error).

(b) Complete (reflecting all applicable events, conditions and circumstances).

(c) Authentic (genuine, authorised and not inappropriately altered).

(d) Free from bias (whether intentional or unintentional).

(e) Credible (generated by a competent, capable and trustworthy source).

Factors that affect the practitioner's professional judgement regarding the attributes of relevance and reliability

A261. Factors that may affect the practitioner's professional judgement about the relevance and reliability of information intended to be used as evidence, including which attributes of reliability may be applicable in the circumstances, include:

- The disclosures and, for reasonable assurance engagements, the assertions, for which the information will be used as evidence. Information may be relevant to multiple disclosures. Some information may be relevant for certain assertions but not others.
- The period of time to which the information relates.
- The controls over the preparation and maintenance of the information.
- The practitioner's assessment of the risks of material misstatement at the disclosure level (in a limited assurance engagement) or at the assertion level for the disclosures (in a reasonable assurance engagement).
- The intended purpose of the procedure in which the information will be used.
- The level of detail of the information needed given the intended purpose of the procedure. For example, information related to key performance indicators used by management may not be precise enough to detect material misstatements at the assertion level and therefore may not, in a reasonable assurance engagement, be appropriate for use by the practitioner in performing further procedures.
- The level of precision within the applicable criteria regarding what is to be reported and how it is to be measured or evaluated. For example, when the applicable criteria require more granular quantitative disclosures, the practitioner may consider the attributes of accuracy and completeness to be important.
- The source of the information. For example, accuracy and completeness ordinarily will be applicable attributes for information generated internally from the entity's information system (such as when performing further procedures). For information obtained from a source external to the entity, the practitioner may be more focused on other attributes of reliability, including the credibility of the source providing the information.
- The ability of the reporting entity to influence information obtained from external sources with whom they have relationships.
- Evidence of general market acceptance by users of the relevance and reliability of information from an external source, including tolerance for less precise information, for example, when that information is inherently subjective.

A262. The reliability of information, in particular the attributes of accuracy, completeness and authenticity, when deemed to be applicable in the circumstances, may also be affected by whether the integrity of the information has been maintained through all stages of processing through the entity's information systems. For example, an entity's information system may include general information technology controls to safeguard and maintain the integrity of the sustainability information.

A263. The source of the information intended to be used as evidence may affect the nature and extent of the practitioner's evaluation of the relevance and reliability of the information. It may also affect how the practitioner responds to matters such as doubts about the reliability of the information, or inconsistencies in evidence. For example, if the information comes from a highly reputable external source, such as an authorised jurisdictional environmental

agency, the practitioner's work effort in considering the reliability of the information may not be extensive.

Information Produced by the Entity (Ref: Para. 91)

A264. In order for the practitioner to obtain reliable evidence, information produced by the entity that is used for performing procedures needs to be sufficiently complete and accurate. Obtaining evidence about the accuracy and completeness of such information may be performed concurrently with the actual procedure applied to the information when obtaining such evidence is an integral part of the procedure itself. In other situations, the practitioner may have obtained evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the practitioner may determine that additional procedures are needed.

A265. In some cases, the practitioner may intend to use information produced by the entity for other purposes. For example, the practitioner may intend to use the entity's production numbers for the purpose of analytical procedures for water or energy consumption, or to use the entity's information produced for monitoring activities, such as reports of the internal audit function. In such cases, the appropriateness of the evidence obtained is affected by whether the information is sufficiently precise or detailed for the practitioner's purposes. For example, performance measures used by management may not be precise enough to detect material misstatements.

Work Performed by a Management's Expert (Ref: Para. 92)

A266. When evaluating the relevance and reliability of information intended to be used as evidence prepared by a management's expert:

(a) The competence and capabilities of that expert may inform the practitioner's consideration of the attribute of credibility. The credibility of the source providing the information affects the degree to which information intended to be used as evidence is reliable; and

(b) The objectivity of that expert may inform the practitioner's consideration of the attribute of bias. A broad range of circumstances may influence the professional judgements of the management's expert, which may threaten the management expert's objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Bias in the information intended to be used as evidence also affects the degree to which information is reliable. In some cases, information prepared by a management's expert may be subject to bias, as management may have an influence on the professional judgements of the management's expert.

Competence and Capabilities of the Management's Expert (Ref: Para. 92(a))

A267. Competence relates to the nature and level of expertise of the management's expert. Factors that may affect whether the management's expert has the appropriate competence include:

- Whether the expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.
- The matter for which the management expert's work will be used, and whether they have the appropriate level of expertise applicable to the matter, including expertise in a particular area of specialty.
- The management's expert's competence with respect to relevant sustainability matters, for example, knowledge of assumptions and methods, including models when applicable, that are consistent with the applicable criteria.

A268. Capabilities relates to the ability of the management's expert to exercise the competence in the circumstances. Factors that may influence capabilities may include geographic location, and the availability of time and resources.

Obtain an Understanding of the Work Performed by the Management's Expert (Ref: Para. 92(b))

A269. Matters relevant to the practitioner's understanding of the work performed by the management's expert may include:

- The relevant field of expertise.
- The nature, scope and objectives of the management's expert's work.
- Whether there are professional or other standards, and regulatory or legal requirements that apply in preparing the information.
- How the information has been prepared by the management's expert, including:
  - The assumptions and methods used by the management's expert, and whether they are generally accepted within that expert's field and appropriate in the context of the applicable criteria and the sustainability matters;
  - The underlying information used by the management's expert; and
  - The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other evidence.

Obtain an Understanding of How the Information Prepared by the Management's Expert Has Been Used by Management in the Preparation of the Sustainability Information (Ref: Para. 92(c))

A270. Obtaining an understanding about how the information prepared by a management's expert has been used by management in the preparation of the sustainability information may include understanding:

(a) How management has considered the appropriateness of the information prepared by the management's expert; and

(b) The modifications made by management to the information prepared by the management's expert.

A271. This understanding may assist the practitioner in:

(a) Evaluating the relevance and reliability of the information intended to be used as evidence; and

(b) Understanding whether the expert's findings or conclusions have been appropriately reflected in the sustainability information. For example, in some circumstances, management may need to modify the information prepared by the management's expert, such as when the information provided is too general and requires adjustment to reflect the circumstances unique to the entity. Management's adjustments may give rise to bias, or management may not have the appropriate competence and capabilities to adapt or adjust the information, which may cause the information to be inaccurate, incomplete or lack credibility.

Evaluating the Appropriateness of the Management's Expert's Work (Ref: Para. 92(d))

A272. Considerations when evaluating the appropriateness of the management's expert's work as evidence may include:

- The relevance and reasonableness of that expert's findings or conclusions, their consistency with other evidence, and whether they have been appropriately reflected in the sustainability information;
- If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
- If that expert's work involves significant use of source data, the relevance and reliability of that source data.

Doubts About the Relevance and Reliability of Information Intended to Be Used as Evidence (Ref: Para. 93–94)

A273. Unless the practitioner has reason to believe the contrary, the practitioner may accept records and documents as genuine. When the practitioner identifies conditions that cause the practitioner to believe that a document may not

be authentic or that terms in a document have been modified but not disclosed to the practitioner, possible procedures to investigate further may include:

(a) Confirming directly with the third party.

(b) Using the work of an expert to evaluate the document's authenticity.

A274. Factors or circumstances that may give rise to doubts about the reliability of information intended to be used as evidence include:

- An inability to evaluate the relevance and reliability of the information, including, for example, whether the information is authentic.
- Misstatements identified during the assurance engagement.
- Deficiencies in internal control identified by the practitioner.
- When procedures performed on a population result in a higher rate of deviation than expected.
- When information intended to be used as evidence is inconsistent with other information or evidence.

A275. The relevance of information intended to be used as evidence may be affected by the period of time to which the information relates. For example, the relevance of such information may change based on the passage of time or due to events or conditions, such as the identification of new information. Such circumstances may occur when the practitioner identifies information from an alternative or more credible source which negates, or causes doubt about, the relevance of the initial information intended to be used as evidence.

A276. In cases of doubt about the reliability of information or indications of possible fraud, this ISSA (NZ) requires the practitioner to investigate further and determine what modifications or additions to procedures are necessary to resolve the matter. Doubts about the reliability of information from management may indicate a risk of fraud.

Planning

Overall Strategy and Engagement Plan (Ref: Para. 95)

Planning Activities

A277. Adequate planning helps to:

- Devote appropriate attention to important areas of the engagement;
- Identify potential problems on a timely basis and properly organise and manage the engagement in order for it to be performed in an effective and efficient manner;
- Properly assign work to engagement team members, and facilitate the direction and supervision of engagement team members and the review of their work; and
- When applicable, coordinate work done by other practitioners and experts.

A278. Planning involves the engagement leader, other key members of the engagement team, and any key practitioner's external experts developing:

(a) An overall strategy for the scope, timing and direction of the assurance engagement; and

(b) An engagement plan, consisting of a detailed approach for the nature, timing and extent of procedures to be performed, and the reasons for selecting them.

A279. The nature and extent of planning activities will vary with the engagement circumstances. Examples of matters that may be considered include:

- The characteristics of the entity and its activities.
- Whether the engagement is a limited assurance engagement, reasonable assurance engagement or a combined limited and reasonable assurance engagement.

- The nature of the sustainability matters.
- Whether there are sustainability matters that may also relate to matters disclosed in the entity's financial statements and, if so, whether communication with the auditor of the financial statements, if not prohibited by law or regulation, may be useful for planning the assurance engagement (e.g., to inform each other about common sustainability matters that may be susceptible to risks of misstatement, or to discuss other matters that may be identified during the course of the respective engagements). If such matters are identified, communication between the practitioner and the auditor of the financial statements may take place at appropriate times throughout the assurance engagement. In some cases, authorisation from management may be needed to share the entity's information with the auditor of the financial statements.
- The expected timing and the nature of the communications required with management or those charged with governance.
- The reporting boundary.
- The practitioner's understanding of the entity and its environment, including the risks that the disclosures may be materially misstated due to error or fraud.
- The intended users and their information needs.
- The nature, timing and extent of resources necessary to perform the engagement, such as expertise required, including the nature and extent of the involvement of experts.
- If the entity has an internal audit function, the impact on the engagement.

A280. Information obtained in the acceptance and continuance process may assist the engagement leader in planning and performing the engagement. Such information may include:

- Information about the size, complexity and nature of the entity, including the industry in which it operates and the applicable criteria.
- The entity's timetable for reporting.
- If the assurance engagement relates to a group, the nature and extent of the control relationships between the entity and other entities within the group.
- Relevant knowledge gained on other engagements performed by the engagement team for the entity.
- Whether there have been changes in the entity or in the industry in which the entity operates since the previous assurance engagement that may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised and reviewed.

A281. The practitioner may decide to discuss elements of planning with the entity when obtaining a preliminary knowledge of the engagement circumstances, determining the scope of the engagement or to facilitate the conduct and management of the engagement (e.g., to coordinate some of the planned procedures with the work of the entity's personnel). Although these discussions often occur, the approach to the engagement remains the practitioner's responsibility. When discussing the approach to the engagement, care is needed in order not to compromise the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the entity may compromise the effectiveness of the engagement by making the procedures too predictable.

A282. Planning is not a discrete phase, but rather a continual and iterative process throughout the engagement. As a result of unexpected events, changes in conditions, or evidence obtained, the practitioner may revise the approach to the engagement, and thereby the resulting planned nature, timing and extent of procedures.

Scalability

A283. In less complex engagements, the entire engagement may be conducted by the engagement leader (who may be a sole practitioner) or a very small engagement team. With a smaller team, coordination of, and communication

between, team members is easier. Establishing the approach to the engagement in such cases need not be a complex or time-consuming exercise; it varies according to the size of the entity, the complexity of the engagement, including the sustainability matters and applicable criteria, the scope of the assurance engagement, and the size of the engagement team. For example, in the case of a recurring engagement, a brief memorandum prepared at the completion of the previous engagement, based on a review of the working papers and highlighting issues identified in the engagement just completed, updated in the current period based on discussions with appropriate parties, may be appropriate as the engagement strategy for the current engagement.

Nature, Timing and Extent of Planned Procedures

A284. The practitioner uses professional judgement in identifying the appropriate approach to planning and performing assurance procedures to obtain sufficient appropriate evidence. Understanding how the entity disaggregates or aggregates the sustainability information for purposes of reporting may assist the practitioner in planning the engagement. Matters that may be relevant in this regard include:

- The information needs of intended users (e.g., intended users may place more significance on information about certain sustainability topics, or aspects of topics, than others).
- Whether the applicable criteria address how the sustainability information should be presented, and how the entity has applied such criteria. Applicable criteria do not always specify in detail the required level of aggregation or disaggregation. They may, however, include principles for determining an appropriate level of aggregation or disaggregation in particular circumstances. For example, the applicable criteria may require the entity to report operational sites situated in areas of high biodiversity value by geographical location only. In other circumstances, the applicable criteria may require that information be disaggregated further to operational size and relative vicinity.
- The entity's reporting policies regarding preparation of the sustainability information, including its policies for classification and presentation of the sustainability information.
- Whether the disclosures pertain to one or more entities within the reporting boundary, and whether such entities are within or outside the reporting entity's control.
- The extent to which the sustainability information:
    - Is processed using common information systems and controls; and
    - Has a common unit of measure.
- How sustainability information is communicated internally to management or those charged with governance.
- Whether the disclosures relate to similar or interconnected topics, aspects of the topics, or characteristics (see also paragraphs A286–A287).
- How the entity's industry peers present the sustainability information.

A285. The practitioner may decide that the way management has aggregated or disaggregated the sustainability information for purposes of presentation is the most appropriate approach for the engagement. However, the practitioner may decide that there are other logical ways of grouping the sustainability information for purposes of planning and performing the engagement.

A286. In addition to the factors in paragraph A284, preliminary expectations about the risks of material misstatement may also be relevant to the practitioner's decision about grouping the sustainability information. For example, if misstatements were identified in the information for certain topics or aspects of topics in previous assurance engagements, the practitioner may decide that the information for those topics or aspects of topics needs to be considered separately.

A287. The practitioner's decision about grouping the entity's disclosures for purposes of planning and performing the engagement, and the manner in which it is done, involves professional judgement. Given the diverse nature of

sustainability information, some topics and aspects of topics are more capable of being grouped than others. In addition, care is needed when grouping disclosures so that risks of material misstatement are identified and responded to appropriately.

Examples of possible ways for the practitioner to group the disclosures:

- By topics: All disclosures on climate; all disclosures on labour practices.
- By aspects of topics: All disclosures regarding risks and opportunities (regardless of the topic); all disclosures regarding targets.
- By topic and aspect of topic: All disclosures regarding targets for climate; all disclosures regarding scenario analysis for climate.
- By characteristics: All disclosures that are qualitative; all disclosures that are forward-looking; all disclosures that are historical.
- By characteristics by aspect of topic: All disclosures regarding targets that are judgemental; all disclosures regarding targets that are historical.

Overall Engagement Strategy and Engagement Plan for Group Sustainability Assurance Engagements

Sustainability Information on Which Assurance Work Will Be Performed (Ref: Para. 96(a))

A288. For a group sustainability assurance engagement, the determination of the information on which assurance work will be performed is a matter of professional judgement depending on the source of the information (i.e., the entities or business units to which the information relates). Matters that may influence the practitioner's determination include, for example:

- The nature and extent of disaggregation of the sustainability information. The matters described in paragraph A284 may be helpful in this regard.
- Whether there are specific locations at which procedures may need to be performed to obtain sufficient appropriate evidence for sustainability information that is important to intended users (e.g., if information about occupational health and safety is of particular importance to users and such information is confined to one or two entities or business units).
- The nature and extent of misstatements or control deficiencies identified at entities in prior sustainability assurance engagements.

Resources Needed to Perform the Engagement (Ref: Para. 96(b))

A289. Matters that may influence the practitioner's determination of the resources needed to perform a group sustainability assurance engagement, including component practitioner(s), include, for example:

- Whether sufficient appropriate evidence is expected to be available from records held by group management, taking into account:
    - The practitioner's understanding of the entity and its environment.
    - The entity's system of internal control, including the information system, and its degree of centralisation. For example, the need to involve a component practitioner may be greater when the system of internal control is decentralised.
- Whether the practitioner is aware of work that has been performed, or will be performed, on sustainability information that has been aggregated from other entities within the entity's control.
- The geographic dispersion of the entities or business units from which information is aggregated.
- Management's process for obtaining information from the value chain. In some circumstances, the criteria may permit management to estimate the information to be reported by using sector-average data and other

proxies if management is unable to obtain the information after making reasonable efforts to do so.

- Access arrangements, or any restrictions on access to information. For example, using the work of a component practitioner may be necessary if the practitioner's access to information from an entity in a particular jurisdiction is restricted.
- The knowledge and experience of the engagement team. For example, a component practitioner may have greater experience and a more in-depth knowledge than the practitioner about local laws or regulations, business practices, language and culture.
- Previous experience of using the work of component practitioner(s).

A290. In determining the nature and extent of evidence to be obtained in relation to sustainability information from group components or value chain components, the following procedures may be considered by the practitioner:

- Inspecting records and documents held by the group: The reliability of this evidence is determined by the nature and extent of the records and supporting documentation retained by the entity. In some cases, the group may not maintain independent detailed records or documentation of specific sustainability matters relating to group components, and in most cases will not do so with respect to value chain components.
- Inspecting records and documents at the component: The practitioner's access to the records of a component may be established as part of the contractual or other arrangements between the group and the component. This is more likely to be the case for group components.
- Testing management's process for obtaining information from value chain components: Due to the limitations that may exist in obtaining information from the value chain, the practitioner's procedures may in some cases be limited to evaluating whether management has complied with the requirements of the criteria, and testing the reasonableness of such information. The practitioner may also seek to obtain evidence from the work of another practitioner if work has been performed on that information. Regardless of any limitations that may exist in obtaining information from the value chain, the practitioner is required to obtain sufficient appropriate evidence. See also paragraphs A252–A253.
- Obtaining confirmations of sustainability information from the component:
    - If the group maintains independent records of sustainability information, confirmation from the component corroborating information in the group entity's records may constitute reliable evidence.
    - If the group does not maintain independent records, information obtained in confirmations from the component is merely a statement of what is reflected in the records maintained by the component. Therefore, such confirmations do not, taken alone, constitute sufficient appropriate evidence. In these circumstances, the practitioner may consider whether an alternative source of independent evidence can be identified.
- Performing analytical procedures on the records maintained by the group or on the information received from the component: the effectiveness of analytical procedures is likely to vary by disclosure or assertion and will be affected by the extent and detail of information available.

Whether to Obtain Evidence from the Work Performed by Another Practitioner(s) (Ref: Para. 96(c))

A291. If the practitioner plans to use a one-to-many report of another practitioner as evidence, paragraph 51 requires the practitioner to evaluate whether the description of the procedures performed and the results thereof are appropriate for the practitioner's purposes. However, the use of such a report does not alter the practitioner's responsibility to obtain sufficient appropriate evidence to provide a reasonable basis to support the practitioner's assurance conclusion on the sustainability information of the group.

Materiality (Ref: Para. 98–100)

A292. The practitioner's consideration or determination of materiality, as applicable, is relevant when performing risk assessment procedures, determining the nature, timing and extent of further procedures, and evaluating whether the sustainability information is free from material misstatement.

A293. Considering materiality for qualitative disclosures involves the practitioner actively reflecting upon factors that may lead to potential material misstatements (see paragraph A300).

A294. In considering or determining materiality, the practitioner considers disclosures that may be important to intended users. The practitioner's risk assessment procedures are designed and performed to identify and assess risks of material misstatement at the disclosure level (for limited assurance) or at the assertion level for the disclosures (for reasonable assurance). Therefore, judgements about materiality and the nature and likelihood of potential misstatements are relevant to the practitioner's approach, including the way in which the sustainability information is grouped for planning and performing the engagement, as explained in paragraphs A284-A287.

A295. Professional judgements about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance. That is, for the same intended users and purpose, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.

A296. The framework criteria may include a discussion of the concept of materiality that provides a frame of reference for consideration or determination of materiality by the practitioner. In the absence of materiality being addressed in the framework criteria, the following principles may be applied:

(a) Judgements about matters that are material to intended users of the sustainability information are based on a consideration of the common information needs of intended users as a group.

(b) Misstatements, including omissions, are considered material if they, individually or in the aggregate, could reasonably be expected to influence decisions of intended users taken on the basis of the sustainability information.

A297. Materiality is a matter of professional judgement and is affected by the practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users:

(a) Have a reasonable knowledge of the sustainability matters, and a willingness to study the sustainability information with reasonable diligence;

(b) Understand that the sustainability information is prepared and assured to appropriate levels of materiality and have an understanding of any materiality concepts included in the applicable criteria;

(c) Understand any inherent uncertainties involved in measuring or evaluating the sustainability matters; and

(d) Make reasonable decisions on the basis of the sustainability information.

Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

> Example:
>
> The entity operates globally in various industries, including health care and consumer goods. The entity engaged an external consulting firm to gather data on stakeholders' perspectives regarding the entity's sustainability strategy. The entity took an approach to first identify the most relevant stakeholder groups, which included "customers, suppliers, non-profit organisations, corporate/private sector, academics, consultants, government, media, finance, trade associations, and think tanks." The entity then obtained direct feedback on how its sustainability strategy affected people, wider communities and the environment. After gathering this data, the entity analysed it to determine what issues were important to those surveyed and reported on those areas.

A298. Materiality relates to the sustainability information within the scope of the assurance engagement. Therefore, when the engagement covers some, but not all, of the sustainability information, materiality is considered in relation to only the sustainability information that is within the scope of the assurance engagement.

A299. Not all disclosures involve the same materiality considerations. Ordinarily, materiality is considered or determined for different disclosures. For different disclosures, the same intended users may have different information needs, a different tolerance for misstatement, or the disclosures may be expressed using different units of measure. Considering qualitative factors may help the practitioner to identify disclosures that may be more significant to the intended users. For example, intended users may place more importance on information about food or drug safety than they do on information about the recycling of non-hazardous waste because the consequences of poor safety standards in food or drug production are likely to be more serious to human health than those for not recycling non-hazardous waste. They may, therefore, have a lower tolerance for misstatement of information about food or drug safety than about recycling of non-hazardous waste.

Qualitative Factors (Ref: Para. 98(a))

A300. Examples of factors that may be relevant to the practitioner's consideration of materiality for qualitative disclosures include:

- The number of persons or entities affected by, and the severity of the effect of, the sustainability matter. For example, a hazardous waste spill may impact a small number of people, but the effect of that spill could lead to serious adverse consequences to the environment.
- The interaction between, and relative importance of, multiple topics and aspects of the topics.
- The form of the presentation of the sustainability information when the applicable criteria allow for variations in the presentation.
- The nature of a potential misstatement and when it would be considered material, for example, the nature of observed deviations from a control when the sustainability information is a statement that a process exists, or the control is effective.
- Whether a potential misstatement could affect compliance with law or regulation, including whether there is an incentive or pressure on management to achieve an expected target or outcome. For example, a practitioner may consider a potential misstatement to be material if it affected a threshold at which a carbon tax would be payable by the entity.
- Whether a potential misstatement would be significant based on the practitioner's understanding of known previous communications to the intended users on matters relevant to their information needs, for example, in relation to the expected outcome of goals or targets, the degree to which a potential misstatement would impact the entity achieving the goal or target.
- When the sustainability matter relates to a governmental programme or public sector entity, whether a particular aspect of the programme or entity is significant with regard to the nature, visibility and sensitivity of the programme or entity.
- If the applicable criteria include the concept of due diligence regarding impacts, the nature and extent of those impacts. For example, a practitioner may consider whether the entity's disclosures omitted or distorted the actions taken to prevent or mitigate negative impacts or ignored additional negative impacts, or the entity's actions to prevent or mitigate negative impacts were not effective.
- For narrative disclosures, whether the level of detail of the description or the overall tone of the words used to describe the matter, may give a misleading picture to users of the sustainability information.
- How the presentation of the information influences users' perception of the information. For example, when management presents the disclosures in the form of graphs, diagrams or images, materiality considerations may include whether using different scales for the x- and y-axes of a graph may be potentially misleading.

Considerations for Materiality for Quantitative Disclosures (Ref: Para. 98(b))

A301. Quantitative factors relate to the magnitude of misstatements relative to the disclosures, if any, that are:

(a) Expressed numerically; or

(b) Otherwise related to numerical values (e.g., the number of observed deviations from a control may be a relevant quantitative factor when the sustainability information is a statement that the control is effective).

A302. Qualitative factors may also be relevant when determining materiality for quantitative disclosures. Example of qualitative factors are provided in paragraph A300.

A303. For disclosures that are quantitative (e.g., a key performance indicator expressed in numerical terms), materiality may be determined by applying a percentage to the reported metric, or to a chosen benchmark related to the disclosure.

> Examples of thresholds may include x% of investment in community projects (in hours or monetary terms), y% of energy consumed (in kWh), or z% of land rehabilitated (in hectares).

A304. Factors that may affect the identification of an appropriate benchmark and percentage include:

(a) The elements of the disclosure. For example, if there is an element that is likely to be the focus of intended users, it may be the appropriate benchmark.

(b) The relative volatility of the benchmark. For example, if the benchmark varies significantly from period to period, it may be appropriate to set materiality relative to the lower end of the fluctuation range even if the current period is higher.

(c) The requirements of the applicable criteria. If the applicable criteria specify a percentage threshold for materiality, this may provide a frame of reference to the practitioner in determining materiality for the disclosure.

A305. The applicable criteria may require disclosures of historical cost financial information. For example, topics reported may include community investment, training expenditures, or taxes by jurisdiction. These may also be reported in the entity's financial statements. The practitioner, or another practitioner, may be engaged to audit those financial statements (see also paragraph A14). The materiality used for these aspects of the disclosures need not be the same as the materiality used in the audit of the entity's financial statements.

When the Entity Is Required to Apply Both Financial Materiality and Impact Materiality (Ref: Para. 99)

A306. If double materiality, as described in paragraph A337 is required to be applied by the reporting framework or entity-developed criteria, paragraph 99 requires the practitioner to take into account both financial materiality and impact materiality perspectives when considering or determining materiality for purposes of planning and performing procedures and determining whether identified misstatements are material, so that:

(a) For quantitative disclosures, ordinarily the lower level of materiality for financial or impact materiality would be used; and

(b) For qualitative disclosures, when applying the factors in paragraph A300 and other misstatement considerations in paragraphs A491–A493, ordinarily the greater level of detail needed in the materiality for financial or impact materiality would be used.

Performance Materiality (Ref: Para. 100)

A307. Performance materiality may be used during different stages of the assurance engagement. For example, performance materiality may be useful to help identify and assess risks of material misstatement at the disclosures level (in a limited assurance engagement), or to help identify and assess risks of material misstatement at the

assertion level for disclosures (in a reasonable assurance engagement) and to determine the nature, timing and extent of further procedures.

A308. For quantitative disclosures, planning the engagement solely to detect individually material misstatements overlooks aggregation risk, which is the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Aggregation risk arises because the sustainability information may be disaggregated, and the practitioner may be designing and performing assurance procedures separately on that disaggregated information. It may therefore be appropriate when planning the nature, timing and extent of procedures for the practitioner to:

(a) Determine performance materiality for quantitative disclosures to reduce aggregation risk to an appropriately low level; and

(b) Consider what types of errors or omissions would potentially constitute a material misstatement when aggregated with other misstatements.

A309. The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgement. It is affected by the practitioner's understanding of the entity that is updated during the performance of the risk assessment procedures. Factors the practitioner may take into account in setting performance materiality include the following:

- The extent of disaggregation of the disclosures. For example, in a group engagement, as the extent of disaggregation across components increases, a lower performance materiality ordinarily would be appropriate to address aggregation risk. The relative significance of the component to the reporting entity may affect the extent of disaggregation (e.g., if a single component represents a large portion of the reporting entity, there likely may be less disaggregation across components).
- Expectations about the nature, frequency and magnitude of misstatements of the disaggregated disclosures, including those identified in previous engagements.

A310. In some cases, risk assessment or further procedures may be performed by the practitioner on a quantitative disclosure as a single population (i.e., not disaggregated). In such cases, performance materiality used for purposes of performing these procedures is the same as materiality.

A311. Performance materiality does not address misstatements that would be material solely due to qualitative factors that affect their significance. However, designing procedures to increase the likelihood of the identification of misstatements that are material solely because of qualitative factors, to the extent it is possible to do so, may also assist the practitioner in addressing aggregation risk.

Revision of Materiality as the Engagement Progresses (Ref: Para. 101)

A312. Materiality may be revised as a result of a change in circumstances during the assurance engagement (for example, the disposal of a major part of the entity's business), new information, or a change in the practitioner's understanding of the entity and its operations as a result of performing procedures. For example, it may become apparent during the engagement that the percentage of significant product categories for which customer health and safety impacts are assessed for improvement is likely to be substantially different from that expected during planning. If during the engagement the practitioner concludes that a different materiality is appropriate, it may also be necessary to revise performance materiality or the nature, timing and extent of further procedures.

Risk Assessment Procedures

Designing and Performing Risk Assessment Procedures (Ref: Para. 103L–105)

A313. Risk assessment procedures are part of an iterative and dynamic process. Initial expectations may be developed about risks of material misstatement, which may be further refined as the practitioner progresses through the engagement, or if new information is obtained. Risk assessment procedures by themselves do not provide sufficient appropriate evidence on which to base the assurance conclusion.

A314. The nature and extent of risk assessment procedures will vary based on whether it is a limited or reasonable

assurance engagement, the nature and circumstances of the entity (e.g., the formality of the entity's policies or procedures, and processes and systems), the nature and complexity of the sustainability matters and the characteristics of the events or conditions that could give rise to material misstatements. The practitioner uses professional judgement to determine the nature and extent of the risk assessment procedures to be performed to meet the requirements of this ISSA (NZ) as appropriate to the level of assurance to be obtained. The depth of understanding that is required by the practitioner is less than that possessed by management in managing the entity and is less for a limited assurance engagement than for a reasonable assurance engagement.

A315. The type of risk assessment procedures performed by the practitioner may include the following:

(a) Enquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who, in the practitioner's judgement, may have information that is likely to assist in identifying and assessing risks of material misstatement, whether due to fraud or error;

(b) Analytical procedures; and

(c) Observation and inspection.

A316. Information obtained by the practitioner through enquiries may provide important evidence (e.g., to support the required understanding of the entity and its environment and the components of the entity's system of internal control); however, for a reasonable assurance engagement, enquiry alone ordinarily is not sufficient to identify and assess risks of material misstatement at the assertion level.

A317. Designing and performing risk assessment procedures may involve obtaining evidence from multiple sources including:

(a) Interactions with management, those charged with governance, and other key entity personnel, which may include personnel within the entity who work in functions relevant to the sustainability information (such as Human Resources) or internal auditors.

(b) Certain external parties such as regulators, whether obtained directly or indirectly.

(c) Publicly available information about the entity and its industry, for example, entity-issued press releases, materials for analysts or investor group meetings, analysts' reports, or information about sustainability matters.

A318. The practitioner may perform further procedures concurrently with risk assessment procedures when it is efficient to do so.

Example:

- Evidence obtained that supports the identification and assessment of risks of material misstatement may also support the evaluation of the operating effectiveness of controls.

Considering Information from Engagement Acceptance and Continuance Procedures (Ref: Para. 104)

A319. Paragraph 75 requires the practitioner to obtain a preliminary knowledge of the engagement circumstances to provide an appropriate basis for establishing whether the preconditions for the engagement are present. This preliminary knowledge ordinarily is not sufficient to fulfil the requirements in paragraphs 103L and 103R, but may provide important evidence to support the required understanding. The practitioner may supplement the understanding of the applicable criteria obtained in accepting the engagement when performing risk assessment procedures with information from, for example:

- When applicable, other engagements performed by the engagement leader for the entity, such as the audit of financial statements or verification of specific matters (e.g., verification of water consumption for a significant operation within the entity).
- Previous experience with the entity, if such information remains relevant and reliable as evidence for the current engagement.

Engagement Team Discussion (Ref: Para. 105)

A320. Discussions between the engagement leader and other key members of the engagement team, and any key practitioner's external experts may:

- Provide an opportunity for more experienced engagement team members, including the engagement leader, to share their insights based on their knowledge of the entity. Sharing information contributes to an enhanced understanding by all engagement team members.
- Allow the engagement team members to exchange information about how and where the sustainability information might be susceptible to material misstatement due to fraud or error.
- Assist the engagement team in planning and performing the engagement.

A321. When the engagement is carried out by a single individual, such as a sole practitioner, consideration of the matters referred to in paragraph 105 nonetheless may assist the practitioner in identifying and assessing risks of material misstatement.

Understanding the Sustainability Matters and the Sustainability Information (Ref: Para. 106)

A322. The characteristics of events or conditions that could give rise to a material misstatement of the disclosures may include complexity, judgement, change, uncertainty, or susceptibility to misstatement due to management bias or fraud, thus resulting in susceptibility of the disclosures to material misstatement, whether due to fraud or error.

A323. Material misstatements due to fraud or management bias in sustainability information may relate to matters such as the following:

- Misstating sustainability information (including omitting information) to avoid penalties or fines, potentially aggressive or overly optimistic internal or external goals, intentionally inaccurate or misleading product or corporate public statements or claims.
- Omitting sustainability matters when identifying the matters to be included in the sustainability information, that may be unfavourable or for which the information is difficult to obtain, even though those matters are material to intended users.
- Misstating sustainability information to enable the entity to be favourably considered in relation to future endeavours, or to be a factor in funding, supplier or customer arrangements or negotiations.
- Misstating sustainability information to reduce carbon tax liabilities or overstate carbon credits created.
- Intentionally reporting sustainability information relating to performance or compensation incentives in a biased way in order to influence the outcome of the performance reward or compensation.
- Pressures linked to obtaining certain credentials or recognitions (e.g., a 'green' seal or rating), or to meet certain contractual conditions.
- Immature systems of internal control over sustainability reporting.

A324. The characteristics of events or conditions that could give rise to risks of material misstatement may be different for different disclosures. For example:

- The risks of material misstatement related to information about the entity's waste generated in the entity's own activities may be different from the risks of material misstatement related to information about the waste generated upstream or downstream in the entity's value chain.
- The risks of material misstatement in historical quantitative information may be different from the risks of material misstatement in forward-looking qualitative information.

A325. The sustainability matters may be complex to measure or evaluate or be subject to uncertainties. For example, potential climate-related risks, the likelihood of their occurrence, and their expected short, medium, and long-term impacts on an entity and its supply chain may be both complex to measure and evaluate and subject to a high degree of uncertainty. As a result of the inherent uncertainties, the risk of material misstatement of disclosures may be higher, or it may be difficult to identify and assess the risks of material misstatement of the sustainability information.

Determining the Suitability of the Applicable Criteria (Ref: Para. 107)

A326. Determining the suitability of the applicable criteria during the engagement builds on the preliminary knowledge obtained and discussion with appropriate party(ies) in evaluating their suitability prior to acceptance or continuance of the engagement, and includes determining whether the criteria exhibit the characteristics of suitable criteria in paragraph 78 (see also paragraph A199). The practitioner's risk assessment procedures are different in nature and extent from the procedures that may be sufficient for acceptance or continuance of the engagement.

A327. If the applicable criteria comprise framework criteria that are presumed to be suitable, as described in paragraph A197, it may be sufficient for the practitioner to determine that the entity has applied such criteria in preparing the sustainability information. In other circumstances, the practitioner may consider whether the evaluation of the criteria at the acceptance and continuance stage remains appropriate for the purposes of the practitioner's risk assessment procedures. If the practitioner's evaluation of the criteria is no longer appropriate, a more detailed determination of the suitability of the criteria is required in accordance with paragraph 107. This may be the case, for example, if entity-developed criteria are available only after the engagement is accepted, or if the entity applies criteria in preparing the sustainability information that differ from what the practitioner anticipated prior to acceptance or continuance of the engagement. This may be due to a range of factors, for example:

- The criteria initially identified are no longer suitable for the entity's circumstances.
- Changes in comparable industry practice.
- New or revised criteria being available.
- The entity applies more precise criteria.
- The entity identifies insufficient specificity in the framework criteria, necessitating entity-developed criteria to be developed.

A328. Determining the suitability of the applicable criteria and evaluating the appropriateness of their application assists the practitioner in identifying the susceptibility of the disclosures to misstatement. For example, the practitioner may:

- Identify elements of the applicable criteria that may be more susceptible to incorrect interpretation and application by the entity in preparing the sustainability information.
- Identify where the entity has the ability to exercise judgement in applying the applicable criteria, and therefore may give rise to risks of material misstatement due to inappropriate judgements in the circumstances of the entity.
- Identify aspects of the applicable criteria that may be more susceptible to manipulation, for example, when the entity is permitted to prepare the information on a comply or explain basis, provided the entity has a reasonable basis for doing so.
- Determine that the entity's process for identifying or developing and applying the applicable criteria is lacking, which may give rise to risks of material misstatement relating to the suitability or appropriate application of the applicable criteria in the entity's circumstances.

A329. Framework criteria may not be considered suitable on their own (e.g., may be incomplete or subject to interpretation in application). Therefore, the entity may need to supplement the framework criteria so that the applicable criteria are suitable. The process of developing the applicable criteria and applying it to the sustainability matters may be complex, require judgement, and may be susceptible to bias. The determination required by

paragraph 107 may result in the practitioner identifying disclosures where there is an increased susceptibility to misstatement or cause the practitioner to re-evaluate the suitability of the applicable criteria.

A330. The determination of the suitability of the applicable criteria may include understanding:

- The uncertainties and complexities associated with identifying the framework criteria, and any entity-developed criteria used to supplement the framework.
- The criteria for the entity's process to identify sustainability information to be reported.
- The criteria for identifying the reporting boundary, and whether this differs for each disclosure.
- If applicable, how the entity develops its own criteria, including criteria used to supplement the framework criteria.
- The controls over the entity's process for identifying or developing and applying the applicable criteria.
- Whether there are any relief provisions. Such relief may be in relation to disclosure obligations over a certain period (e.g., an entity is only required to provide environmental information for the first three years of reporting), or in respect to data and information required to prepare the sustainability information (e.g., to address concerns about initial costs and resourcing constraints in obtaining required information regarding upstream and downstream value chain information).

A331. Understanding the process for identifying or developing and applying the applicable criteria, including the entity's process to identify sustainability information to be reported, may also help the practitioner determine the suitability of the applicable criteria, including whether the criteria:

- Address the purpose of the sustainability information.
- Are transparent.
- Involve engagement with intended users or their representatives in identifying their information needs for decision-making.
- Address how the criteria are applied in the entity's circumstances, including the selection and application of reporting policies consistent with the applicable criteria.
- Provide appropriate reasons for using the criteria.
- Consider if the criteria are appropriately specific regarding how the sustainability matters should be measured or evaluated.

Specific Considerations for Determining the Suitability of Criteria for Qualitative Information (Ref: Para. 78(c), 107)

A332. In some circumstances, the practitioner may determine that the criteria for qualitative information are unsuitable. For example, not all the characteristics for suitable criteria are exhibited because the criteria lack specificity or criteria for the qualitative information do not exist. In such circumstances, the practitioner may consider:

- Requesting that the entity develop suitable criteria.
- Requesting that the entity not report the information that would result from applying the unsuitable criteria, but if the entity decides to report that information, clearly identifying the information as other information that is not within the scope of the assurance engagement, and performing procedures in accordance with paragraphs 171–177.
- Whether the information may be misleading, and the impact on acceptance and continuance of the engagement.
- The impact on the assurance conclusion.

Specific Considerations for Determining the Suitability of Criteria for Processes, Systems and Controls (Ref: Para. 78(c), 107)

A333. If sustainability information on processes, systems and controls is subject to the assurance engagement, the practitioner may consider whether the criteria encompass the following:

(a) If the assurance conclusion covers the description of the entity's process, systems or controls:

(i) The control objectives and controls designed to achieve those objectives;

(ii) The procedures and records, within both information technology and manual systems, by which the sustainability matters, and significant events and conditions, relevant to the sustainability information are recorded, processed, corrected as necessary, and transferred to the sustainability information reported.

(b) If the assurance conclusion covers the suitability of the design of the processes, systems or controls:

(i) Identification of the risks that threaten achievement of the control objectives stated in the description of the processes, systems or controls; and

(ii) Whether the controls identified in that description would, if operated as described, provide reasonable assurance about the achievement of the control objectives.

(c) If the assurance conclusion covers the operating effectiveness of the processes, systems or controls, whether the controls were consistently applied as designed throughout the specified period.

Specific Considerations for Determining the Suitability of Criteria for Performance (Ref: Para. 78(c), 107)

A334. In evaluating whether the criteria to evaluate the entity's performance are suitable, the practitioner may consider whether the criteria encompass:

(a) Measures or benchmarks used to set the targets, key performance indicators, commitments or other goals against which performance is to be measured; and

(b) Methods of measurement or evaluation of the entity's performance.

Specific Considerations for Determining the Suitability of Criteria for Forward-looking Sustainability Information (Ref: Para. 78(c), 107)

A335. In evaluating whether the criteria to be applied in preparing the entity's forward-looking information are suitable, the practitioner may consider whether the criteria encompass:

(a) The basis of the assumptions to be made and the nature, sources and extent of uncertainty inherent in those assumptions; and

(b) The measurement or evaluation methods to be used for the forward-looking sustainability information to be prepared on the basis of the assumptions in (a).

Relevance of the Criteria (Ref: Para. 78(c)(i), 107)

A336. In evaluating whether the criteria are relevant, the practitioner may consider whether the criteria:

(a) Result in sustainability information that assists decision-making by the intended users.

(b) Were developed through a process, by the entity or an external party, that focused on identifying or evaluating whether the sustainability information assists decision-making by the intended users, including the general types of decisions that intended users are expected to make based on the purpose of the sustainability information.

(c) Address the inherent level of measurement or evaluation uncertainty in applying the criteria in the circumstances of the engagement, including whether the sustainability information that is subject to high

inherent measurement or evaluation uncertainty will be accompanied by disclosures that make the nature and extent of the uncertainty clear.

(d) Specify the level of disaggregation or aggregation of the information or include principles for determining an appropriate level of aggregation or disaggregation in particular circumstances.

(e) Are consistent with those generally recognised to be appropriate in the context of the entity's industry or sector or there are justifiable reasons not to use such criteria (e.g., the entity develops more relevant criteria).

(f) Permit omissions of sustainability disclosures only in circumstances when it is appropriate to do so. For example, the criteria may allow the entity to exclude certain disclosures if:

(i) The reporting processes have not yet fully matured, such that the information is incomplete or unavailable, and the criteria require the entity to disclose this fact and its reasons for omitting the disclosures.

(ii) That disclosure is not applicable to the entity's circumstances.

(iii) There are legal constraints preventing the disclosure.

(iv) In extremely rare circumstances, the sustainability information is confidential, or the adverse consequences of disclosure would reasonably be expected to outweigh the public interest benefits of doing so, such as information that might prejudice an investigation into an actual, or suspected, illegal act.

(g) Are specific to the topics and aspects of the topics, that will result in information that assists decision-making by the intended users, such as whether the criteria for:

(i) Processes, systems or controls includes, for example, control objectives to evaluate the suitability of their design (see also paragraph A333);

(ii) Performance includes the targets, key performance indicators, commitments or goals against which performance is measured and methods of measurement or evaluation of that performance (see also paragraph A334);

(iii) Forward-looking information includes the basis for evaluating the reasonableness of the underlying assumptions and methods of preparation based on those assumptions (see also paragraph A335); or

(iv) Historical information includes methods of measurement or evaluation of the entity's activities.

Consideration of the relevance of the criteria when financial materiality or impact materiality apply (Ref: Para. 99, 107)

A337. Relevant criteria that assist the decision-making of intended users may relate to:

(a) Either:

(i) The material impacts of environmental, social and governance matters on the entity's strategy, business model and performance, which may be referred to as "financial materiality;" or

(ii) The material impacts of the entity's activities, products and services on the environment, society, or economy, which may be referred to as "impact materiality;" or

(b) Both financial materiality and impact materiality, which may be described by the applicable criteria as "double materiality."

Completeness of Criteria (Ref Para. 78(c)(ii), 107)

A338. In evaluating the completeness of the criteria, including entity-developed criteria to supplement any framework criteria used, the practitioner may consider whether they address:

- Topics or aspects of topics that could reasonably be expected to affect decisions of intended users, or cannot be as readily measured or evaluated as other topics or aspects of topics.

- The basis for significant judgements in preparing the sustainability information.
- The source of significant inherent uncertainties in applying the criteria.
- The reporting boundary.

Reliability of the Criteria (Ref: Para. 78(c)(iii), 107)

A339. In evaluating whether the criteria are reliable, the practitioner may consider:

- Whether the measurement or evaluation of the sustainability matters can be undertaken with the necessary degree of precision to be relevant in the engagement circumstances.
- Whether the criteria are based on definitions with little or no ambiguity.
- Whether applying the criteria allows for reasonably consistent measurement or evaluation of the sustainability matters when used in similar circumstances by different parties.
- The sources of the criteria and the process used to develop them.

Neutrality of the Criteria (Ref: Para. 78(c)(iv), 107)

A340. In evaluating whether the criteria are neutral, the practitioner may consider whether the criteria:

- Require a balanced disclosure of both favourable and unfavourable information and are not subject to management bias by excluding any topics or aspects of topics only on the basis that they may reflect poorly on the entity.
- Do not result in information that is misleading to the intended users in the interpretation of the sustainability information.
- Are consistent between reporting periods, unless there is a reasonable basis for the change.
- Address how the information is presented and disclosed, to reduce the opportunity for management bias.
- Are entity-developed (e.g., may be subject to management bias).

A341. When the criteria are not consistent with previous reporting periods, the practitioner may consider whether:

- The entity has a reasonable basis for the change, for example, the entity may be developing and improving its process to prepare the sustainability information and the entity-developed criteria may have been changed to reflect more appropriate or modern approaches, data or methods.
- The basis for the change is sufficiently disclosed and explained in the sustainability information.
- The criteria are different from those commonly used in the entity's industry or sector, as this may be an indicator of management bias.
- The change results in information that is always positive (e.g., management changes the criteria year on year so that the outcome looks more positive).

Understandability of the Criteria (Ref: Para. 78(c)(v), 107)

A342. In evaluating whether the criteria are understandable, the practitioner may consider whether the criteria:

- Are clear and unambiguous.
- Will enable the intended users to identify readily the main points being made and to infer appropriately whether they affect their decision-making.
- Will result in a presentation that does not obscure relevant information.
- Will result in clear presentation of the sustainability information in a way that effectively summarises and draws attention to key features of the information reported.

- Will result in the sustainability information being coherent, easy to follow, clear and logical.
- Will result in sustainability information that can be readily located, for example, the information may be difficult to locate if it is spread across different reports, webpages or included by reference.
- Will result in sustainability information that is appropriately balanced between conciseness to be understandable and relevance.
- Will result in logical and comparable time periods, whether those be:
    - A point in time (e.g., for description or implementation of a process not covering the period).
    - Periods that have ended (e.g., for historical information).
    - Periods that end in the future (e.g., for strategy, targets or commitments).

Understanding the Entity's Reporting Policies (Ref: Para. 108–109)

A343. Reporting policies are the bases, conventions, rules and practices applied by an entity in preparing and presenting the sustainability information. The entity's reporting policies are not criteria by themselves, but assist the entity in complying with the applicable criteria. The criteria need to encompass sufficient principles as the basis for the entity to select and apply reporting policies that are consistent with the underlying concepts in, and meet the objectives of, the requirements of the criteria, as explained in paragraph A2. If the existing criteria do not provide sufficient principles for the entity to select and apply reporting policies, criteria from another framework may need to be identified or entity-developed criteria may need to be developed. Matters that the practitioner may consider when obtaining an understanding of the entity's selection and application of reporting policies, including any changes and the reasons for those changes, may include:

- Reporting policies used by similar entities, such as those in the same industry or jurisdiction.
- The methods the entity uses to recognise, measure, present and disclose significant sustainability information, or to address unusual or exceptional circumstances.
- The effect of significant policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
- Changes in the environment, such as changes in the applicable criteria, law and regulation or accepted interpretation of the criteria that may necessitate a change in the entity's reporting policies.
- Criteria and laws and regulations that are new to the entity and when and how the entity will adopt, or comply with, such requirements.

A344. Example of the entity selecting and applying reporting policies in accordance with the framework criteria:

- A mining company reports sustainability information in accordance with a sustainability framework that requires specific disclosures on risks and opportunities related to human rights and rights of Indigenous Peoples for the metals and mining industry.
- In complying with the criteria, the entity also selects and applies reporting policies, including the methods used to disclose engagement processes and due diligence practices with respect to human rights and indigenous rights in areas of conflict to mitigate related risks.

Understanding the Entity and Its Environment

Understanding the Entity's Operations, Legal and Organisational Structure, Ownership and Governance, and Business Model (Ref: Para. 110(a))

A345. The practitioner uses professional judgement to determine the characteristics of the entity and its environment that are relevant to the sustainability information and therefore are necessary to understand. The practitioner's primary consideration is whether the understanding that has been obtained is sufficient to meet the objective of the risk

assessment procedures. The practitioner's understanding may involve less effort when the scope of the assurance engagement is limited to certain sustainability information (e.g., discrete metrics). On the other hand, a broader understanding of the entity and its environment may be necessary if the scope of the assurance engagement addresses multiple topics or aspects of the topics. Similarly, the depth of understanding of the entity and its environment necessary for a limited assurance engagement may be less than the depth of understanding necessary in a reasonable assurance engagement.

A346. The practitioner’s understanding of the entity and its environment may include an understanding of the following:

(a) The nature of the entity and its sustainability-related business risks, including:

(i) The nature of the operations included in the reporting boundary, including:

a. Whether the activities or operations within the reporting boundary are internal or external to the entity;

b. The contribution of each activity or operation to the sustainability information, including entities or operations within the value chain, if material to the sustainability information; and

c. The uncertainties associated with the quantities reported in the sustainability information.

(ii) Changes from the prior period in the nature of the entity, its business risks, or the reporting boundary, including whether there have been any mergers, acquisitions, disposals, or outsourcing of functions.

(iii) The frequency and nature of interruptions to operations.

(b) The maturity of the processes and controls over sustainability information and the extent to which they integrate the use of IT.

Understanding the Reporting Boundary (Ref: Para 110(b))

A347. Understanding the reporting boundary may require the analysis of complex organisational structures (e.g., multiple operating units in different jurisdictions), contractual relationships and activities within the entity’s value chain. The way operations are organised may also have implications for the reporting boundary. For example, a facility may be owned by one party, operated by another, and process materials solely for a third party, but the sustainability activities of all three entities may be within the reporting boundary. Understanding activities within the reporting boundary help the practitioner:

- Understand whether the disclosures are affected by complexity, judgement, change, uncertainty, or susceptibility to misstatement due to management bias or fraud.
- Identify disclosures for which it may be necessary to use the work of others to obtain sufficient appropriate evidence.
- Identify the members of the engagement team and other parties with whom the engagement leader discusses the susceptibility of disclosures to material misstatements whether due to fraud or error.
- Consider or determine an appropriate materiality for the applicable disclosures.
- Determine the nature, timing and extent of further procedures.
- Identify disclosures where it may be difficult to obtain sufficient appropriate evidence and, as a result, the implications for the assurance report.

Understanding the Entity’s Goals, Targets, or Strategic Objectives (Ref: Para. 110(c))

A348. Understanding goals, targets, or strategic objectives related to sustainability matters and measures used to assess the entity’s performance may help the practitioner identify incentives and pressures that increase the susceptibility of the sustainability information to management bias or fraud.

Understanding the Legal and Regulatory Framework (Ref: Para. 111)

A349. The effect on the sustainability information of laws and regulations will vary. Those laws and regulations to which an entity is subject constitute the legal and regulatory framework. The provisions of some laws or regulations may have a direct effect on the sustainability information, in that they may determine the criteria to be applied or specify disclosures required to be included in an entity's sustainability information.

A350. Other laws and regulations may not have a direct effect on the determination of the disclosures in the sustainability information, but compliance with them may be fundamental to the operating aspects of the business. Non–compliance with laws and regulations that have a fundamental effect on the operations of the entity may have consequences for the entity's disclosures.

A351. To obtain an understanding of the legal and regulatory framework, and how the entity complies with that framework, the practitioner may, for example:

- Use the practitioner's existing understanding of the entity's industry, regulatory and other external factors.
- Update the understanding of those laws and regulations that establish criteria, frameworks, standards or guidance.
- Enquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity.
- Enquire of management concerning the entity's policies or procedures regarding compliance with laws and regulations.

Enquiries and Discussion with Appropriate Parties (Ref: Para. 112)

A352. Enquiries of appropriate parties and, when appropriate, others within the entity may offer the practitioner varying perspectives in performing risk assessment procedures.

Examples:

- Enquiries directed towards those charged with governance may help the practitioner understand the extent of oversight by those charged with governance over the preparation of the sustainability information.
- Enquiries of management may help the practitioner to evaluate the appropriateness of the selection and application of the applicable criteria.
- Enquiries directed towards in-house legal counsel may provide information about matters such as litigation, compliance with laws and regulations, knowledge of fraud or suspected fraud affecting the sustainability information.
- Enquiries directed towards the risk management function (or enquiries of those performing such roles) may provide information about operational and regulatory risks that may affect the sustainability information.
- Enquiries directed towards IT personnel may provide information about system changes, system or control failures, or other IT-related risks.

A353. If an entity has an internal audit function, enquiries of the appropriate individuals within the function may assist the practitioner in understanding the entity and its environment and the entity's system of internal control, in identifying and assessing risks of material misstatement.

Understanding Components of the Entity's System of Internal Control (Ref: Para. 113L, 113R)

A354. Understanding components of the entity's system of internal control relevant to the sustainability matters and the preparation of the sustainability information assists the practitioner in identifying the types of misstatements that may occur and factors that affect risks of material misstatement in the disclosures.

A355. The level of formality of the entity's system of internal control, including the control environment, the entity's risk assessment process and process to monitor the system of internal control, may vary by size and complexity of the entity, and the nature and complexity of the sustainability matters and the applicable criteria.

A356. The nature and extent of the practitioner's understanding of the components of the entity's system of internal control may vary depending on the complexity of the assurance engagement and the nature and complexity of the sustainability matters. As the entity and sustainability matters become more complex, more extensive procedures may be necessary to obtain the understanding, for example, by performing a walkthrough to confirm enquiries of entity personnel. A walkthrough involves selecting events or conditions and tracing them through the applicable process in the information system.

A357L. In a limited assurance engagement, the practitioner uses professional judgement to determine the extent of understanding of the components of the system of internal control that is necessary to identify and assess the risks of material misstatement, whether due to fraud or error, at the disclosure level. It often will not be necessary to obtain a detailed understanding and the procedures to obtain the understanding may be less in extent, and of a different nature than those required in a reasonable assurance engagement. For example, the practitioner may obtain a sufficient understanding of the information system through enquiry in a limited assurance engagement but may need to perform a walk-through in a reasonable assurance engagement.

A358. In some circumstances, the sustainability matters may be related to controls (i.e., the controls are the aspects of the topics). For example, the sustainability information may describe the design, implementation, or effectiveness of controls over occupational health and safety. Paragraph 106 requires the practitioner to understand the sustainability matters (in this case, controls over occupational health and safety). In these circumstances, paragraphs 113L and 113R require the practitioner to obtain an understanding of the entity's system of internal control related to the processes used to design, implement, or operate the controls over occupational health and safety and the processes to prepare information about those controls.

A359. The practitioner's understanding of the relevant components of the entity's system of internal control may raise doubts about the practitioner's ability to obtain sufficient appropriate evidence on which to base the assurance conclusion or may indicate a need to withdraw from the engagement, if withdrawal is possible under applicable law or regulation. For example:

- Concerns about the integrity of those preparing the sustainability information may be so serious as to cause the practitioner to conclude that the engagement cannot be conducted.
- Concerns about the competence of management and the condition and reliability of an entity's records may cause the practitioner to conclude that it is unlikely that sufficient appropriate evidence will be available to support an unmodified conclusion on the sustainability information.

The Control Environment (Ref: Para. 114L, 114R)

A360.The practitioner's understanding of the control environment, such as how the entity demonstrates behaviour consistent with the entity's commitment to integrity and ethical values, may assist the practitioner in identifying risks of material misstatement. For example, deficiencies in the control environment may result in risks of material misstatement in disclosures throughout the sustainability information.

A361R.The practitioner's evaluation of the control environment may assist the practitioner in identifying potential issues in the other components of the entity's system of internal control. This is because the control environment is foundational to the other components of the entity's system of internal control. This evaluation may also assist the practitioner in identifying and assessing the risks of material misstatement.

A362. The practitioner's understanding of the control environment may include understanding the controls, processes and structures that address:

- How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values.
- When those charged with governance are separate from management, the independence of, and oversight over, the entity's system of internal control by those charged with governance.
- The entity's assignment of authority and responsibility.
- How the entity attracts, develops, and retains competent individuals.
- How the entity holds individuals accountable for their responsibilities in the pursuit of the objectives of the entity's system of internal control.

Scalability

A363. Information about the control environment in less complex entities may not be available in documentary form, in particular when communication between management and other personnel is informal, but the information may still be appropriately relevant and reliable in the circumstances. For example, the practitioner may observe the entity's past and current practices, and engagement with stakeholders. Such observations may contribute to the practitioner's understanding of the components of the entity's system of internal control, even if policies have not been documented formally.

The Entity's Risk Assessment Process (Ref: Para. 115L, 115R)

A364. Understanding the results of the entity's risk assessment process may assist the practitioner in:

(a) Identifying and assessing risks of material misstatement in the disclosures; and

(b) Obtaining an understanding of the sustainability matters and other engagement circumstances.

A365R. The practitioner's evaluation of whether the entity's risk assessment process is appropriate to the entity's circumstances allows the practitioner to understand where the entity has identified risks that may occur, and how the entity has responded to those risks. The practitioner's evaluation of how the entity identifies its risks, and how it assesses and addresses those risks, assists the practitioner in understanding whether the risks faced by the entity have been identified, assessed, and addressed as appropriate to the nature and complexity of the entity.

A366. In some cases, the criteria may require the entity to identify and provide information about sustainability-related risks and opportunities, or the process(es) by which sustainability-related risks and opportunities are identified, assessed and managed. Therefore, understanding the results of the entity's risk assessment process may also assist the practitioner in identifying and assessing risks of material misstatement related to the appropriate application of the applicable criteria by the entity. For example, if the practitioner identifies potential deficiencies in the entity's risk assessment process, the practitioner may determine that there is a heightened risk that sustainability matters required to be reported in accordance with the applicable criteria may not have been identified by the entity and therefore, the presentation or description of such matters in the sustainability information may be incomplete.

A367R. Not all risks identified by the entity give rise to risks of material misstatement. In understanding how management and those charged with governance have identified risks relevant to the preparation of the sustainability information, and decided about actions to address those risks, the practitioner may consider how management or, as appropriate, those charged with governance, have:

(a) Specified the entity's objectives with sufficient precision and clarity to enable the identification and assessment of the risks relating to the objectives;

(b) Identified the risks to achieving the entity's objectives and analysed the risks as a basis for determining how the risks should be managed; and

(c) Considered the potential for fraud when considering the risks to achieving the entity's objectives.

A368. If the practitioner identifies risks that the entity failed to identify, and those risks are of a kind that the practitioner expects would have been identified by the entity's risk assessment process, it may be an indicator that the entity's risk assessment process is not appropriate to the entity's circumstances.

The Entity's Process for Monitoring the System of Internal Control (Ref: Para. 116L, 116R)

A369. Understanding the results of the entity's process for monitoring the system of internal control may assist the practitioner in:

(a) Identifying and assessing risks of material misstatement in the disclosures;

(b) Obtaining an understanding of the sustainability matters and other engagement circumstances; and

(c) Determining whether to obtain evidence from testing controls.

A370. Understanding the results of the entity's process for monitoring the system of internal control may provide information about deficiencies in controls; however, the absence of results of the entity's process for monitoring the system of internal control does not necessarily indicate that controls are operating effectively. The absence of results may be indicative of an ineffective process for monitoring the system of internal control.

A371R. Understanding the entity's process for monitoring the system of internal control relevant to the preparation of the sustainability information may involve understanding:

(a) Those aspects of the entity's process that address:

(i) Ongoing and separate evaluations for monitoring the effectiveness of controls, and the identification and remediation of control deficiencies identified; and

(ii) The entity's internal audit function, if any, including its nature, responsibilities, and activities; and

(b) The sources of information used in the entity's process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose.

A372R. The practitioner's evaluation of the entity's process for monitoring the system of internal control assists the practitioner in understanding the other components of the entity's system of internal control. This evaluation may also assist the practitioner with identifying and assessing risks of material misstatement at the assertion level for the disclosures.

A373R. Matters that may be relevant for the practitioner to consider when understanding how the entity monitors its system of internal control include:

(a) The design of the monitoring activities, for example, whether it is periodic or ongoing monitoring;

(b) The performance and frequency of the monitoring activities;

(c) The evaluation of the results of the monitoring activities, on a timely basis, to determine whether the controls have been effective; and

(d) How identified deficiencies have been addressed through appropriate remedial actions, including timely communication of such deficiencies to those responsible for taking remedial action.

A374R. The practitioner may also consider how the entity's process to monitor the system of internal control addresses monitoring of information processing controls that involve the use of IT. This may include, for example:

(a) Controls to monitor complex IT environments that:

(i) Evaluate the continuing design effectiveness of information processing controls and modify them, as appropriate, for changes in conditions; or

(ii) Evaluate the operating effectiveness of information processing controls.

(b) Controls that monitor the permissions applied in automated information processing controls that enforce the segregation of duties.

(c) Controls that monitor how errors or control deficiencies related to the automation of sustainability reporting are identified and addressed.

Scalability

A375R. In less complex entities, and in particular owner-manager entities, the practitioner's understanding of the entity's process to monitor the system of internal control is often focused on how management or the owner-manager is directly involved in operations, as there may not be any other monitoring activities.

A376R. For entities where there is no formal process, understanding the process to monitor the system of internal control may include understanding periodic reviews of information that are designed to contribute to how the entity prevents or detects misstatements.

The Information System and Communication (Ref: Para. 117–118)

A377. The practitioner uses professional judgement to determine which aspects of the information system are relevant to the sustainability matters and the preparation of the sustainability information and may make enquiries of the appropriate party(ies) about those aspects and perform other procedures, as necessary.

A378. The understanding of the information system may include an understanding of the entity's information processing activities, its data and information, the resources to be used in such activities and the policies or procedures that define, for the sustainability information:

(a) How data and information, including qualitative information, are captured, recorded, processed, reviewed, corrected, and presented, including whether, and if so, how, the entity centralises activities relevant to sustainability reporting. Such policies or procedures may include internal verification processes whereby the data and information are checked by a reviewer for accuracy and completeness, and signed off to evidence that the review has taken place;

(b) Supporting records and other relevant information about the sustainability matters relating to the flow of information in the information system; and

(c) The processes used to prepare the sustainability information, including the aggregation process used, including, if any, aggregation adjustments.

A379. The practitioner's understanding of the information system may be obtained in various ways and may include:

(a) Enquiries of relevant personnel about the procedures used to initiate, record, process and report events and conditions related to the topics and aspects of the topics;

(b) Inspection of policy or process manuals or other documentation of the information system;

(c) Observation of the performance of the policies or procedures by the entity's personnel; or

(d) Selecting events or conditions and tracing them through the applicable process in the information system (i.e., performing a walk-through).

A380. The entity's information system and communication are likely to involve the use of IT to collect or process data and information. Entities may use complex IT applications, simple spreadsheets or paper-based records, or a combination of these. The information system includes the IT environment, IT applications and other aspects of the IT environment that are relevant to the flows and processing of information in the information system. The entity's use of IT applications or other aspects of the IT environment may give rise to risks arising from the use of IT. For example, changes in the flow of information within the information system may result from programme changes to IT applications, or direct changes to data in databases involved in processing or storing that information.

Scalability

A381. The information system and how the entity communicates in smaller or less complex entities are likely to be less sophisticated and are likely to involve a less complex IT environment than in larger and more complex entities. Less complex entities with direct management involvement may not need extensive descriptions of procedures,

sophisticated records, or written policies. Understanding the relevant aspects of the entity's information system may therefore require less effort in an engagement for a less complex entity and may involve a greater amount of enquiry than observation or inspection of documentation. The need to obtain an understanding, however, remains important to provide a basis for the design of further procedures and may further assist the practitioner in identifying and assessing risks of material misstatement.

Understanding the entity's process to identify sustainability information to be reported (Ref: Para. 117(a))

A382. The practitioner may consider whether the entity's process to identify sustainability information to be reported includes:

(a) Identification of, or engagement with, the intended users, or the stakeholders they represent, to determine their information needs;

(b) The entity's selection or development of suitable criteria, which provides the basis for the identification of sustainability information to be reported prior to the consideration of materiality;

(c) The appropriate application of the criteria to identify sustainability information to be reported, including the identification of topics, aspects of topics and reporting boundary; and

(d) Filtering of the sustainability information to select material information to be reported.

A383. If the entity does not have a suitable process to identify sustainability information to be reported, then the topics or aspects of topics selected may be incomplete or include sustainability information that is not relevant or obscures material sustainability information. As the entity's process includes management judgement, there is risk of management bias when identifying the sustainability information to be reported. The greater the degree to which the reporting framework or law or regulation specifies in detail the sustainability information to be reported, the lower the risk of material misstatement may be as there is less opportunity for management bias.

A384. The extent of the practitioner's work effort in obtaining an understanding of the entity's process to identify sustainability information to be reported will depend on the nature and circumstances of the engagement. For some engagements, the reporting framework or law or regulation may specify sustainability information to be reported and the procedures may be limited to identifying those requirements and understanding whether the sustainability information required to be reported is included in the sustainability information. In other engagements, the framework or entity-developed criteria may not specify the sustainability information, or may only specify certain sustainability information to be reported and may set out the process the entity is required to follow to identify the sustainability information, or additional sustainability information to be reported. Alternatively, the entity may need to develop its own criteria for that process. In these circumstances, the entity's process is likely to be more complex and to impact the nature and extent of the practitioner's procedures.

Understanding how information from external sources is recorded, processed, corrected and incorporated (Ref: Para. 117(b))

A385. The understanding of how information from external sources is recorded, processed, corrected as necessary, and incorporated into the sustainability information may also include an understanding of:

(a) The nature and significance of the data or information provided by external sources; and

(b) How the entity addresses the reliability of information from external sources, for example by:

(i) Monitoring information provided to, and received back from, the external source;

(ii) Considering the reputation of the external source; and

(iii) Considering whether there are other sources of similar information, and whether the information from such different available sources is aligned.

Evaluating the information system to support the preparation of the sustainability information (Ref: Para. 118)

A386. The understanding of the information system may also include an understanding of how the entity communicates significant matters that support the preparation of the sustainability information and related reporting responsibilities in the information system and other components of the entity's system of internal control:

(a) Between people within the entity, including how roles and responsibilities are communicated;

(b) Between management and those charged with governance;

(c) With intended users; and

(d) With external parties, such as regulatory authorities.

Control Activities (Ref: Para. 119R, 120L)

A387. The practitioner's identification and evaluation of controls in the control activities component of the entity's system of internal control may focus on information processing controls, which are controls applied during the processing of information in the entity's information system that directly address risks to the integrity of information (i.e., the completeness, accuracy, and validity of information). However, the practitioner is not required to identify and evaluate all information processing controls.

A388. An assurance engagement does not require an understanding of all the controls related to each disclosure or to every assertion relevant to them.

A389. Examples of other controls for which it may be appropriate for the practitioner to obtain an understanding include:

- Controls that address risks of material misstatement assessed as higher on the spectrum of risk based on their likelihood and magnitude.
- Controls that are related to the assembly of, or adjustments to, the sustainability information.
- If the entity uses a service organisation, controls at the entity that relate to the services provided by the service organisation.

A390. Identifying IT applications and other aspects of the IT environment, related risks arising from the use of IT, and general IT controls in place to address those risks affects the practitioner's decisions on testing controls, assessing risks of material misstatement, testing information produced by IT applications, and designing further procedures.

A391. In identifying IT applications subject to risks arising from IT, the practitioner may consider the entity's automated controls, information storage and processing, and reliance on general IT controls. The extent of understanding and the number of applications subject to risks arising from the use of IT vary based on the entity's complexity. When the practitioner has identified IT applications that are subject to risks arising from IT, other aspects of the IT environment (for example network, operating systems, databases, and interfaces between IT applications) are likely to be identified because such aspects support and interact with the identified IT applications.

A392. Risks arising from IT may include unauthorised access, programme changes, and inappropriate data changes, and their extent depends on the nature and characteristics of the IT applications and environment.

Design and Implementation of Controls (Ref: Para. 120L, 120R)

A393. Evaluating the design of an identified control involves the practitioner's consideration of whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements (i.e., the control objective).

A394. The practitioner determines the implementation of an identified control by establishing that the control exists and that the entity is using it. There is little point in the practitioner assessing the implementation of a control that is not designed effectively. Therefore, the practitioner evaluates the design of a control first. An improperly designed control may represent a control deficiency.

A395. The practitioner may conclude that a control, which is effectively designed and implemented, may be appropriate to test in order to take its operating effectiveness into account in determining the nature, timing and extent of further procedures. However, when a control is not designed or implemented effectively, there is no benefit in testing it.

A396. When the practitioner plans to test the operating effectiveness of a control, the information obtained about the extent to which the control addresses the risk(s) of material misstatement is an input to the practitioner's risk assessment.

A397. Evaluating the design and determining the implementation of controls is not sufficient to test their operating effectiveness. However, the practitioner may plan to test the operating effectiveness of automated controls by identifying and testing general IT controls that provide for the consistent operation of the automated controls instead of testing the operating effectiveness of the automated controls directly. General IT controls that are not able to be reconfigured or changed by management provide for the consistent operation of an automated control.

A398. The practitioner may expect more formal documentation of the information system and controls when the information system and controls form part of the sustainability matters (e.g., when the sustainability information is about the entity's controls).

A399L. In accordance with paragraph 120L, in a limited assurance engagement, the practitioner is not required to understand the control activities component by evaluating the design of controls and determining whether they have been implemented, unless the practitioner plans to obtain evidence by testing the operating effectiveness of controls.

Identifying Control Deficiencies (Ref: Para. 121)

A400. If deficiencies are identified related to the control environment, this may affect the practitioner's overall expectations about the operating effectiveness of controls, and therefore the practitioner's plans to test the operating effectiveness of controls.

A401. When understanding the components of the entity's system of internal control, the practitioner may determine that certain of the entity's policies are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator that control deficiencies exist. The practitioner may consider the effect of those control deficiencies on the design of further procedures and whether to communicate the deficiencies to management or those charged with governance.

A402. Circumstances that may indicate that control deficiencies exist include matters such as the identification of:

- Fraud of any magnitude that involves senior management;
- Deficiencies in the control environment;
- Risks of material misstatement that were not identified by the entity's risk assessment process;
- The omission of sustainability matters from the sustainability information, that are required to be reported by the applicable criteria and that are material, when those sustainability matters were not identified by the entity's process to identify sustainability matters to be reported; and
- The inclusion of immaterial sustainability matters that obscure sustainability matters to be reported within the sustainability information

A403. If the practitioner's evaluation of the entity's control environment or other components of internal control raise doubts about the ability to obtain evidence on which to base the assurance conclusion, the practitioner may:

- Perform additional risk assessment procedures until evidence has been obtained to alleviate the practitioner's doubts;
- Withdraw from the engagement when permitted by law or regulation; or
- Consider the implications for the practitioner's report.

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 122L, 122R)

A404. Identifying and assessing the risks of material misstatement involves professional judgement based on the practitioner's understanding of the sustainability matters and the sustainability information and the entity and its environment.

A405. Identifying and assessing the risks of material misstatement also involves the practitioner considering the potential for a misstatement occurring (i.e., its likelihood) and being material if it were to occur (i.e., whether the potential misstatement is of a magnitude or severity that could reasonably be expected to influence the decisions of users).

A406L. The identification and assessment of the risks of material misstatement at the disclosure level in a limited assurance engagement is less extensive than for a reasonable assurance engagement. This is the case because:

- The breadth and depth of the practitioner's understanding that forms the basis for risk identification and assessment is different because the risk assessment procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement;
- The practitioner is not required to identify and assess risks of material misstatement at the assertion level in a limited assurance engagement; and
- The level of assurance obtained in a limited assurance engagement is substantially lower than the assurance obtained in a reasonable assurance engagement.

A407. The combination of the likelihood and magnitude of a potential misstatement determines where on the spectrum of risk the identified risk is assessed. Making this assessment informs the practitioner's design of further procedures to address the risk. The higher the combination of likelihood and magnitude, the higher the assessment of risk; the lower the combination of likelihood and magnitude, the lower the assessment of risk.

A408. The manner in which the practitioner groups the disclosures for purposes of planning and performing the engagement (see paragraphs A285–A287) affects how the practitioner identifies and assesses the risks of material misstatement.

A409L. For a limited assurance engagement, the practitioner's expectation about a misstatement occurring, and being material if it were to occur, is less specific than for a reasonable assurance engagement because it is based on more limited information, as explained in paragraph A406L. In addition, the practitioner's conclusion in a limited assurance engagement is expressed in terms of whether anything has come to the practitioner's attention that causes the practitioner to believe that the sustainability information is not fairly stated (or properly prepared), in all material respects, in accordance with the applicable criteria. Therefore, for a limited assurance engagement, if in the course of performing procedures to respond to the assessed risks, matters come to the practitioner's attention that indicate the sustainability information may be materially misstated, paragraph 148L requires the practitioner to perform additional procedures.

A410. In considering the magnitude of a possible misstatement, the practitioner may consider the qualitative and quantitative aspects of the possible misstatement (i.e., misstatements in a disclosure may be judged to be material due to size, nature or circumstances). The qualitative and quantitative factors in paragraphs A300 and A301, respectively, may be helpful in this regard.

A411. The practitioner's consideration of the magnitude of a potential misstatement in a qualitative disclosure may depend on the importance of that disclosure to the intended users. For example, intended users may place more importance on the entity's efforts to reduce carbon emissions than its efforts to enhance community engagement. Therefore, intended users may have a lower tolerance for a misstatement of disclosures about efforts to reduce carbon emissions than disclosures about efforts to enhance community engagement.

Example:

The practitioner may identify and assess a risk of misstatement in an entity's disclosure that its efforts to reduce carbon emissions includes enhancing its carbon capture and storage capacities and describe its plans to acquire the technology to do so. This may be based on the practitioner's understanding of:

- The pressures that the entity faces to reduce carbon emissions to meet regulatory targets; and
- The fact that acquiring the technology to capture and store carbon likely would be cost prohibitive to the entity.

Whether the practitioner considers the misstatement material, if it were to occur, depends on the importance that intended users place on the disclosure, and the magnitude of misstatement that would influence the decisions of intended users, which may be influenced by factors including:

- Current or past trends in carbon emissions for the entity and the industry;
- Whether the plan to reduce carbon emissions is important to meeting legal or regulatory emissions targets;
- Whether the plan to enhance carbon capture and storage capacities is the primary approach, or part of a multi-pronged approach, to reducing carbon emissions; and
- Whether customers, employees, or investors in the industry place importance on carbon emissions.

A412. The sustainability reporting framework may require disclosure of a large number of individual metrics for different sustainability matters. In these circumstances:

- The practitioner may treat a group of metrics as a disclosure for purposes of identifying and assessing the risks of material misstatement (i.e., the practitioner need not identify and assess the risk of material misstatement for each individual metric.) This may be the case, for example, if intended users are more likely to focus on the group of metrics rather than individual metrics.
- Depending on the facts and circumstances, the practitioner may determine that the risks of material misstatement for certain metrics or groups of metrics are acceptable in the circumstances (i.e., are at an acceptable level for the engagement (for limited assurance) or an acceptably low level (for reasonable assurance)). In these circumstances, the practitioner need not design and perform further procedures. Irrespective of the assessed risks of material misstatement in a reasonable assurance engagement, paragraph 140R requires the practitioner to consider the need to design and perform substantive procedures for disclosures that, in the practitioner's judgement, are material.

A413. The assurance engagement (and the practitioner's assurance conclusion) may relate only to certain metrics. In these circumstances, it is more likely that the individual metrics may be of significance to intended users. Therefore, the practitioner would ordinarily identify and assess the risks of material misstatement for each individual metric.

A414. Risks of material misstatement may relate to one or more entities within the reporting boundary. In these circumstances, the practitioner may consider using the work of a component practitioner to identify and assess the risks of material misstatement. However, the practitioner remains responsible for the identification and assessment of risks of material misstatement of the group sustainability information and for the design and performance of further procedures to respond to the assessed risks.

Assertions

A415R. In identifying and assessing the risks of material misstatement, the practitioner uses assertions to consider the different types of potential misstatements that may occur. The practitioner may use the assertions described below or may express them differently provided all aspects described below have been covered. Assertions may include:

- Occurrence and existence – the disclosures are related to events or conditions that have occurred or exist.
- Responsibility – the disclosures pertain to the entity.
- Completeness – all events or conditions, pertaining to the entity and the reporting boundary, that should have been included in the sustainability information have been included.
- Accuracy and valuation – the disclosures, including estimates, have been appropriately measured, evaluated

or described in accordance with the applicable criteria.

- Cutoff – the disclosures have been recorded in the reporting period to which they relate.
- Presentation, classification and understandability – the disclosures are appropriately aggregated or disaggregated, structured appropriately, and presented and described in accordance with the applicable criteria, and are clearly expressed.
- Consistency – the criteria and application of the criteria are consistent with those applied in the prior period, or changes are justified and have been properly applied and adequately disclosed; and comparative information, if any, is as reported in the prior period or has been appropriately restated.

A416L. Although the practitioner is not required to identify and assess risks of material misstatement at the assertion level in a limited assurance engagement, the practitioner may choose to use assertions if they are useful in considering the types of potential misstatements that could occur or designing and performing procedures in response to them.

A417. Misstatements may arise as a result of human error, process flaws, management bias or fraud.

Examples of different types of possible misstatements include:

- False claims in information (occurrence and existence, or responsibility assertion) – for example, if an entity claimed responsibility for community investment or environmental clean-up that did not actually occur or was done by another party.
- Recording information in the incorrect period (cut-off assertion) – for example, recording an entity's water used in the period preceding or following the period in which the water was actually used.
- Inaccuracies in information (accuracy and valuation assertion) – for example, arising from inaccurately calibrated measuring devices, transposition or other errors in the recording of measurements, or use of inappropriate conversion factors, such as use of a carbon dioxide conversion factor for nuclear energy when the entity has coal and oil-fired facilities.
- Omission of information (completeness assertion) – for example, a company reports on its land rehabilitation programme for three of its mining sites but remains silent about two sites where significant degradation has occurred and where there are no plans to rehabilitate the land.
- Incorrectly classified information (presentation, classification and understandability assertion) – for example, the entity classifies seasonal contractors (mainly female) as permanent full-time employees, which results in erroneous reporting about gender representation on its permanent work force.
- Misleading or unclear representation of information (presentation, classification and understandability assertion) – for example, the preparer gives undue prominence to favourable information by using large, bold or brightly-coloured text and images, or other ways to emphasise the presentation, but presents unfavourable information less conspicuously, for example, by using small or light-coloured font, and less extensive text.
- Bias in information that focuses on positive aspects of performance and omits negative aspects (presentation, classification and understandability assertion).

Management Override of Controls (Risk Assessment) (Ref: Para. 123R)

A418R. Management is in a unique position to perpetrate fraud because of management's ability to manipulate the data and records and prepare fraudulent sustainability information by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it

is a risk of material misstatement due to fraud and thus a risk of material misstatement at the upper end of the spectrum of risk.

Evaluating the Evidence Obtained from the Risk Assessment Procedures (Ref: Para. 124)

A419. The practitioner's evaluation of the components of the entity's system of internal control and understanding of controls, along with any control deficiencies identified, may:

(a) Influence the identification and assessment of risks of material misstatement for the disclosures; and

(b) Indicate risks of material misstatement that may affect many disclosures, and thus may require overall responses in accordance with paragraphs 128L and 128R.

Responding to Risks of Material Misstatement

Designing and Performing Further Procedures (Ref: Para. 126L–127)

A420. The practitioner's further procedures may include a combination of procedures such as inspection; observation; confirmation; recalculation; reperformance; analytical procedures; and enquiry. Determining the further procedures to be performed on a particular engagement is a matter of professional judgement. Because sustainability information may cover a wide range of circumstances, the nature, timing and extent of such procedures are likely to vary considerably from engagement to engagement.

A421. Substantive procedures may include:

- Tests of detail, for example:
  - Agreeing emissions factors to appropriate sources (for example, government publications), and considering their applicability in the circumstances.
  - Reviewing joint venture agreements and other contracts relevant to the entity's reporting boundary.
  - Reconciling recorded data to, for example, odometers on vehicles owned by the entity.
  - Reperforming calculations and reconciling differences noted.
  - Sampling and independently analysing the characteristics of materials such as coal, or observing the entity's sampling techniques and reviewing records of laboratory test results.
  - Checking the accuracy of calculations and the suitability of calculation methods used.
  - Agreeing recorded data back to source documents, such as production records, fuel usage records, and invoices for purchased energy.
- Analytical procedures when there is a relationship between the sustainability information and other relevant information such that the practitioner may be able to develop an expectation and compare that expectation with the outcome of the measurement or evaluation of the sustainability matters.

A422. The planned nature, timing and extent of further procedures is a matter of professional judgement and is influenced by the circumstances of the assurance engagement, including the information needs of intended users as a group, the criteria, and the sustainability matters within the scope of the engagement.

A423. The nature, timing and extent of the further procedures will be informed by:

- The practitioner's approach to planning and performing procedures, including understanding how the entity disaggregates or aggregates the sustainability information for purposes of reporting (see paragraph A284);
- The assessed risks of material misstatement, including the reasons for the assessment given to the risks of material misstatement;

- Whether using the work of others (e.g., practitioner's experts, component practitioners or another practitioner(s)) is necessary to obtain evidence from or pertaining to group components or value chain components; and
- The persuasiveness of evidence to be obtained.

A424. Because the level of assurance obtained in a limited assurance engagement is substantially lower than in a reasonable assurance engagement, the further procedures the practitioner performs in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. The differences between the practitioner's further procedures for a reasonable assurance engagement and a limited assurance engagement on sustainability information may include:

(a) The emphasis placed on the nature of procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example, the practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on enquiries of the entity's personnel and analytical procedures, and relatively less emphasis, if any, on tests of controls and obtaining evidence from external sources than may be the case for a reasonable assurance engagement.

(b) In a limited assurance engagement, the extent of procedures performed compared to those in a reasonable assurance engagement may involve:

(i) Selecting fewer items to test;

(ii) Performing fewer procedures (for example, performing only analytical procedures in circumstances when, in a reasonable assurance engagement, both analytical procedures and tests of detail would be performed); or

(iii) Performing procedures on location at fewer facilities.

(c) In a reasonable assurance engagement, analytical procedures performed in response to assessed risks of material misstatement involve developing expectations of quantities or ratios that are sufficiently precise to identify material misstatements. In a limited assurance engagement, analytical procedures may be designed to support expectations regarding the direction of trends, relationships and ratios rather than to identify misstatements with the level of precision expected in a reasonable assurance engagement.

In addition, when undertaking analytical procedures in a limited assurance engagement the practitioner may, for example:

(i) Use data that is more highly aggregated, for example, data at a regional level rather than at a facility level, or monthly data rather than weekly data.

(ii) Use data that has not been subjected to separate procedures to test its reliability to the same extent as it would be for a reasonable assurance engagement.

A425. Examples of reasons for the assessment given to a risk of material misstatement:

- The inherent complexity of the sustainability matter or judgement in its measurement or evaluation. For example, a material misstatement may be more likely to arise in a disclosure where mass balance calculations are involved than when water consumption is read directly from a meter.
- The complexity of the organisation, its ownership and control arrangements, or its geographical spread.
- Systems and processes that are less automated or still developing, such that there may be a greater likelihood of human error, processing flaws or opportunity for unauthorised intervention.
- Incentives to misstate, for example, if a particular target performance has to be met to retain a license to operate or to avoid fines, or to meet stakeholders' expectations.

- Inherent limitations in the capabilities of measuring devices (e.g., water meters) or insufficient frequency of their calibration.
- Errors or inappropriate judgements made in measuring, evaluating or disclosing the sustainability information, including in the assumptions used in making estimates, the use of inaccurate or incomplete base data on which estimates are based, or in circumstances when complex calculations are involved (e.g., when a mass balance approach is used to calculate water abstracted).
- The risk that unidentified aspects of the sustainability matter may be missed, for example because of events or transactions outside of the normal course of business, because the preparer relies on a third party for information (e.g., external meter readers or engineering firms to calculate water abstracted), or because of undetected water or wastewater leaks or similar.
- How weaknesses in the design of controls or the ineffective operation of controls might give rise to errors, processing flaws or opportunity for unauthorised intervention.

A426. More persuasive evidence may be needed to provide the basis for a conclusion on the sustainability information due to engagement circumstances. For example, the practitioner may have identified and assessed a higher risk of material misstatement. In such circumstances, it may be appropriate to increase the quantity of the evidence (e.g., by obtaining corroborating evidence from a number of independent sources).

A427. More persuasive evidence may be needed if the practitioner, through the understanding of the entity and its environment and its system of internal control, has identified matters such as:

- A higher assessed risk of material misstatement.
- An increased focus of intended users on a topic or aspect of a topic.
- The lack of a relationship between the sustainability information and other relevant information that precludes the performance of analytical procedures.
- A control environment in which the entity does not demonstrate behaviour consistent with a commitment to integrity and ethical values.
- Risks of material misstatement that have not been identified by the entity's risk assessment process.
- Information systems that are not appropriate to the circumstances of the entity.
- A lack of maturity in the sustainability matters or the information system used to prepare the sustainability information.
- Errors in the disclosure in the past.
- A new area, topic or aspect of a topic.

Overall Responses (Ref: Para. 128L, 128R)

A428. Paragraphs 126L and 126R require the practitioner to design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, whether due to fraud or error, at the disclosure level (limited assurance) or at the assertion level for the disclosures (reasonable assurance). However, the practitioner may identify circumstances that indicate that overall responses may be needed in accordance with paragraph 128L or 128R, such as the following:

- Deficiencies in the control environment may undermine the effectiveness of other controls, in particular in relation to fraud. In such cases, material misstatements may occur in any assertion or in multiple assertions.
- There may be incentives for intentional misstatement of the sustainability information, for example, those who are directly involved with, or have the opportunity to influence, the reporting process may have a significant portion of their compensation contingent upon achieving aggressive targets or complying with

laws and regulations that have a direct effect on the sustainability information.

- The practitioner may identify an increased risk of material misstatement pervasively throughout the sustainability information (that is, not related to one disclosure or assertion, or a few disclosures or assertions).

A429. Designing and performing overall responses may include:

- Assigning and supervising personnel, considering the knowledge, skill and ability of the individuals to be given significant engagement responsibilities, and the practitioner's risk assessment procedures.
- Conducting more procedures as of the period end rather than at an interim date.
- Obtaining more extensive evidence from procedures other than tests of controls.
- Increasing sample sizes and the extent of procedures, such as the number of facilities at which procedures are performed.
- Incorporating an element of unpredictability in the selection of the nature, timing and extent of procedures.

Responding to Identified or Suspected Fraud or Non-Compliance with Laws and Regulations (Ref: Para. 129–131)

A430. The risk of not detecting a material misstatement due to fraud or non-compliance with laws and regulations is higher than the risk of not detecting one resulting from error. Furthermore, the risk of not detecting fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations is higher in a limited assurance engagement than in a reasonable assurance engagement. The appropriate response to fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations is dependent on the circumstances.

A431. Responding appropriately to identified or suspected fraud or non-compliance with laws and regulations, identified during the engagement, may include taking action, such as:

- Discussing the matter with the entity.
- Requesting the entity to consult with an appropriately qualified third party, such as the entity's legal counsel or a regulator.
- Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.
- Considering the implications of the matter in relation to other aspects of the engagement, including the practitioner's risk assessment and the reliability of written representations from the entity.
- Obtaining legal advice about the consequences of different courses of action.
- Withholding the assurance report.
- Withdrawing from the engagement.

A432. In determining the appropriate level of management or those charged with governance, with whom to communicate instances of fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations, the practitioner may consider whether management may have been involved in the fraud or suspected fraud or identified or suspected non-compliance with laws and regulations and whether any of those charged with governance are involved in managing the entity. If those charged with governance are not involved with managing the entity, the practitioner may communicate to them instances of fraud or suspected fraud or non-compliance or suspected non-compliance with laws and regulations involving management, employees who have significant roles in internal control, or where the fraud or non-compliance with laws and regulations results in a material misstatement in the sustainability information, unless that communication is prohibited by law or regulation.

A433. In certain circumstances, the practitioner's response to identified or suspected fraud, or instances of non-compliance or suspected non-compliance with laws and regulations may require reporting the identified or

suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity. See paragraph 67.

A434. Relevant ethical requirements may include requirements addressing the practitioner's communication of instances of identified or suspected non-compliance with laws and regulations with the financial statement auditor.

A435. Examples of circumstances that may cause the practitioner to evaluate the implications of identified or suspected non-compliance on the reliability of written representations received from management and, where applicable, those charged with governance include when:

- The practitioner suspects or has evidence of the involvement or intended involvement of management and, where applicable, those charged with governance in any identified or suspected non-compliance.
- The practitioner is aware that management and, where applicable, those charged with governance have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorised reporting of, the matter to an appropriate authority within a reasonable period.

Tests of Controls (Ref: Para. 132, 135)

A436. When more persuasive evidence is needed regarding the effectiveness of a control, it may be appropriate to increase the extent of testing of the control. Other matters the practitioner may consider in determining the extent of tests of controls include the following:

- The frequency of the performance of the control by the entity during the period.
- The length of time during the period that the practitioner is relying on evidence about the operating effectiveness of the control.
- The expected rate of deviation from a control.
- The relevance and reliability of the information to be used as evidence regarding the operating effectiveness of the control at the assertion level.
- The extent to which evidence is obtained from tests of other controls related to the assertion in a reasonable assurance engagement.

A437. Because of the inherent consistency of IT processing, evidence about the implementation of an automated application control, when considered in combination with evidence about the operating effectiveness of the entity's IT general controls (in particular, change controls), may also provide substantial evidence about its operating effectiveness.

A438. In certain circumstances, evidence obtained from previous engagements may provide evidence for the current engagement when the practitioner performs procedures to establish its continuing relevance. For example, in performing a previous engagement, the practitioner may have determined that an automated control was functioning as intended. The practitioner may obtain evidence to determine whether changes to the automated control have been made that affect its continued effective functioning through, for example, enquiries of management and the inspection of logs to indicate what controls have been changed. Consideration of evidence about these changes may support either increasing or decreasing the expected evidence to be obtained in the current period about the operating effectiveness of the controls.

A439. In most cases, evidence from a previous engagement's substantive procedures provides little or no evidence for the current period. However, it may be appropriate to use evidence from a previous engagement's substantive procedures if that evidence and the related subject matter have not fundamentally changed, and procedures have been performed during the current period to establish its continuing relevance.

Substantive Procedures (Ref: Para. 140R)

A440R. The practitioner's understanding of the entity's process to identify sustainability information to be reported may indicate that certain disclosures include information that is likely to be of particular importance to intended users

(see also paragraphs A285–A287 regarding the grouping of disclosures for purposes of planning and performing the engagement). However, the practitioner may determine that the risks of material misstatement for those disclosures are at an acceptably low level. In these circumstances, due to the importance of that information to intended users, paragraph 140R requires the practitioner to consider the need to design and perform substantive procedures on those disclosures. The need to perform substantive procedures, and the extent of such procedures, is a matter of professional judgement in the circumstances. In addition, the practitioner is not expected to design and perform substantive procedures for all disclosures. Rather, the substantive procedures may focus on the disclosures, or the information within those disclosures, that is expected to be of particular importance to intended users.

A441R. The consideration of the need to design and perform substantive procedures for these disclosures reflects that:

- The practitioner's assessment of the risks of material misstatement is judgemental.
- There are inherent limitations in internal control, including the possibility of management override. Therefore, for example, the practitioner may determine that testing the operating effectiveness of controls may need to be supplemented with limited tests of details.

External Confirmation Procedures (Ref: Para. 141R)

A442. The practitioner may consider performing confirmation procedures to request information regarding assertions, disclosures, topics, or aspects of topics.

A443. External confirmation procedures may provide relevant evidence about such information as:

- Activity data collected by a third party.
- Industry benchmark data used in calculations.
- The terms of agreements, contracts, or transactions between the entity and other parties.
- The results of laboratory analysis of samples.

Extending the Conclusions of Substantive Procedures Performed at an Interim Date (Ref: Para. 142)

A444. In some circumstances, the practitioner may determine that it is effective to perform substantive procedures at an interim date, and to compare and reconcile information at the period end with the comparable information at the interim date to:

(a) Identify amounts that appear unusual;

(b) Investigate any such amounts; and

(c) Perform analytical procedures or tests of details to test the intervening period.

A445. Performing substantive procedures at an interim date without undertaking additional procedures at a later date increases the risk that the practitioner will not detect misstatements that may exist at the period end. This risk increases as the remaining period is lengthened. The practitioner may consider factors such as the following in deciding whether to perform substantive procedures at an interim date:

- The control environment and other relevant controls.
- The availability at a later date of information necessary for the practitioner's procedures.
- The purpose of the substantive procedure.
- The assessed risk of material misstatement.
- The nature of the disclosures and related assertions.
- The ability of the practitioner to perform appropriate substantive procedures or substantive procedures combined with tests of controls to cover the remaining period in order to reduce the risk that misstatements that may exist at the period end will not be detected.

Analytical Procedures (Ref: Para. 143L–143R)

A446. Analytical procedures may be performed when there is a reasonably predictable relationship between the sustainability information and financial or operational information (for example, the relationship between Scope 2 emissions from electricity and hours of operation or the general ledger balance for electricity purchases). Other analytical procedures may involve comparisons of information about the entity's sustainability information with external data such as industry averages; or the analysis of trends during the period to identify anomalies for further investigation, and trends across periods for consistency with other circumstances such as the acquisition or disposal of facilities.

A447. Analytical procedures may be particularly effective when disaggregated data is readily available, or when the practitioner has reason to consider the data to be used is reliable, such as when it is extracted from a well-controlled source. In some cases, data to be used may be captured by the financial reporting information system or may be entered in another information system in parallel with the entry of related financial data, and some common input controls applied. For example, the quantity of fuel purchased as recorded on suppliers' invoices may be input under the same conditions that relevant invoices are entered into an accounts payable system. In some cases, data to be used may be an integral input to operational decisions and therefore subject to increased scrutiny by operational personnel, or subject to separate external procedures (for example, as part of a joint venture agreement or oversight by a regulator).

A448L. In a limited assurance engagement, analytical procedures may be designed to support expectations about the direction of trends, relationships and ratios rather than with the level of precision required in a reasonable assurance engagement to identify possible material misstatements.

Sampling (Ref: Para. 145)

A449. Sampling is not the same as selecting items as part of risk identification or assessment procedures or to evaluate the reliability of information. Sampling involves the following:

(a) Determining a sample size sufficient to reduce sampling risk to an appropriately low level. Sampling risk is the risk that the practitioner's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same procedure. Because the acceptable level of assurance engagement risk is lower for a reasonable assurance engagement than for a limited assurance engagement, so too may be the level of sampling risk that is acceptable in the case of tests of details. Therefore, when sampling is used for tests of details in a reasonable assurance engagement, the sample size may be larger than when used in similar circumstances in a limited assurance engagement.

(b) Selecting items for the sample in such a way that each sampling unit in the population has a chance of selection, and performing procedures, appropriate to the purpose, on each item selected. If the practitioner is unable to apply the designed procedures, or suitable alternative procedures, to a selected item, that item is treated as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.

(c) Investigating the nature and cause of deviations or misstatements identified and evaluating their possible effect on the purpose of the procedure and on other areas of the engagement.

(d) Evaluating:

(i) The results of the sample, including, for tests of details, projecting misstatements found in the sample to the population; and

(ii) Whether the use of sampling has provided an appropriate basis for conclusions about the population that has been tested**.**

Estimates and Forward-Looking Information (Ref: Para. 146L, 146R)

A450. Estimation uncertainty may arise due to incomplete knowledge about the measurement of an area, activity or event, or the measurement or evaluation of an estimate may depend on the forecast of an outcome of one or more events

or conditions.

A451. Forward-looking information may include forecasts, projections, or future plans of the entity. Forward-looking information may be prepared using scenarios based on best-estimate assumptions or hypothetical assumptions, which are affected by management's judgement. A future event, occurrence or action relating to the sustainability matters may be subject to greater uncertainty, and therefore ordinarily able to be evaluated with less precision than historical events, occurrences or actions. Disclosures become more speculative as the length of the period covered increases and the uncertainty may increase the further into the future the period to which the forward-looking information relates.

A452. The applicable criteria may require disclosure of the entity's intended future strategy, targets, or other intentions. For such forward-looking information, the practitioner is not required to obtain evidence about whether the strategy, target or intention will be achieved, or to come to a conclusion to that effect.

A453R. When designing the procedures required by paragraph 146R(a), the practitioner's procedures may include:

(a) Based on the practitioner's knowledge and experience, considering if there are reasons to believe that the forward-looking information is clearly unrealistic.

(b) Inspecting minutes of meetings or reports on the business's operations to evaluate whether:

(i) Management or those charged with governance have an intention and ability to follow the strategy;

(ii) The target or intention exists; or

(iii) There is a reasonable basis for the intended strategy or target.

A454. Regardless of the source or degree of uncertainty, complexity or subjectivity, or the extent of management's judgement, it is necessary for management to appropriately apply the applicable criteria when developing estimates and forward-looking information and the related disclosures, including selecting and using appropriate methods, assumptions and data.

A455L. In some limited assurance engagements, it may be appropriate for the practitioner to undertake one or more of the procedures in paragraph 146R.

Evaluating Whether the Method Has Been Appropriately Selected and Applied (Ref: Para 146R(b)(i)a.)

A456R. In evaluating whether the method has been appropriately selected and applied, the practitioner's further procedures may address:

(a) Whether judgements made in selecting the method give rise to indicators of possible management bias;

(b) Whether the calculations are applied in accordance with the method and are mathematically accurate;

(c) When management's application of the method involves complex modelling, whether judgements have been applied consistently and whether, when applicable:

(i) The design of the model meets the measurement objective of the applicable criteria, is appropriate in the circumstances, and, if applicable, changes from the prior period's model are appropriate in the circumstances; and

(ii) Adjustments to the output of the model are consistent with the measurement objective of the applicable criteria and are appropriate in the circumstances; and

(d) Whether the integrity of the significant assumptions and the data have been maintained in applying the method. Assumptions used in determining an estimate or forward-looking information are referred to as significant assumptions when a reasonable variation in the assumption would materially affect the estimate or forward-looking information.

Evaluating Whether the Assumptions Are Appropriate (Ref: Para. 146R(b)(i)b.)

A457R. In evaluating whether the assumptions are appropriate, the practitioner's further procedures may address:

(a) Whether judgements made in selecting the significant assumptions give rise to indicators of possible management bias;

(b) Whether the significant assumptions are consistent with the purpose for preparing the estimates or forward-looking information, with each other and with those used in other disclosures, or with related assumptions used in other areas of the entity's business activities, based on the practitioner's knowledge obtained in the engagement;

(c) If applicable, whether management has the intent to carry out specific courses of action and has the ability to do so; and

(d) Whether the entity has considered alternative assumptions or outcomes, and why it has rejected them.

Evaluating Whether the Data Are Appropriate (Ref: Para. 146R(b)(i)c.)

A458R. In evaluating whether the data are appropriate, the practitioner's further procedures may address:

(a) Whether judgements made in selecting the data give rise to indicators of possible management bias;

(b) Whether the data are relevant and reliable in the circumstances; and

(c) Whether the data have been appropriately understood or interpreted by management, including with respect to contractual terms.

Changes from Prior Periods Not Based on New Circumstances or New Information (Ref: Para. 146L(a)(iii), 146R(b)(i))

A459. When a change from prior periods in a method, significant assumption, or the data are not based on new circumstances or new information, or when significant assumptions are inconsistent with each other and with those used in other estimates, or with related assumptions used in other areas of the entity's business activities, the practitioner may need to have further discussions with management about the circumstances and, in doing so, challenge management regarding the appropriateness of the assumptions used.

Developing a Point Estimate or Range (Ref: Para. 146R(b)(ii))

A460R. Developing a point estimate or range, as applicable, to evaluate estimates and related disclosures may be an appropriate approach when, for example:

- The practitioner's consideration of similar estimates made in the prior period suggests that management's current period process is not expected to be effective.
- The entity's controls within and over management's processes for developing estimates are not well designed or properly implemented.
- Events or transactions between the period end and the date of the practitioner's report have not been properly taken into account, when it is appropriate for management to do so, and such events or transactions appear to contradict management's point estimate.
- There are appropriate alternative assumptions or sources of relevant data that can be used in developing a practitioner's point estimate or a range.
- Management has not taken appropriate steps to understand or address the estimation uncertainty.

A461R. The practitioner may develop a point estimate or a range in a number of ways, for example, by:

- Using a different model than the one used by management, for example, one that is commercially available for use in a particular sector or industry, or a proprietary or practitioner-developed model.
- Using management's model but developing alternative assumptions or data sources to those used by management.
- Using the practitioner's own method but developing alternative assumptions to those used by management.

- Employing or engaging a person with specialised expertise to develop or execute a model, or to provide relevant assumptions.

A462R. The practitioner may also develop a point estimate or range for forward-looking information. The practitioner's decision as to whether to do so may depend on the nature of the forward-looking information and the practitioner's judgement in the circumstances. For example, as forward-looking information is subject to greater inherent uncertainty than historical information, the practitioner may choose to determine whether the disclosure presented by management is within a reasonable range of possible outcomes.

Revising the Risk Assessment in a Reasonable Assurance Engagement (Ref: Para. 147R)

A463R. If, having performed the additional procedures required by paragraph 147R(b), the practitioner is not able to obtain sufficient appropriate evidence to reach a reasonable assurance conclusion, a scope limitation exists and paragraph 185 applies.

Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement (Ref: Para. 148L)

A464L. Not all misstatements are indicative of the existence of material misstatements. However, the practitioner may become aware of a matter(s) that causes the practitioner to believe the sustainability information may be materially misstated. For example, when performing site visits the practitioner may identify a potential source of emissions that does not appear to be included in the emissions disclosures. In such cases, the practitioner makes further enquiries as to the potential source, and how it has been incorporated into the emissions disclosures.

A465L. The practitioner's judgement about the nature, timing and extent of additional procedures that are needed to obtain evidence to either conclude that a material misstatement is not likely, or determine that a material misstatement exists, is, for example, guided by:

- Information obtained from the practitioner's evaluation of the results of the procedures already performed.
- The practitioner's updated understanding of the sustainability matters and other engagement circumstances obtained throughout the course of the engagement.
- The practitioner's view on the persuasiveness of evidence needed to address the matter that causes the practitioner to believe that the sustainability information may be materially misstated.
- Whether the practitioner judges it appropriate to perform procedures of similar nature or extent to that required in a reasonable assurance engagement.

A466L. The practitioner uses professional judgement to determine the persuasiveness of evidence required to conclude on the matter that causes the practitioner to believe the sustainability information may be materially misstated.

A467L. If, having performed the additional procedures required by paragraph 148L, the practitioner is not able to obtain sufficient appropriate evidence to either conclude that the matter(s) is not likely to cause the sustainability information to be materially misstated or determine that it does cause the sustainability information to be materially misstated, a scope limitation exists and paragraph 185 applies.

The Entity's Process for Assembling the Sustainability Information (Ref: Para. 149L, 150R)

A468. The process to assemble the sustainability information may be very informal when the entity's information system is immature. In more sophisticated systems, the process may be more systematic and formally documented. The nature and extent of the practitioner's procedures with respect to adjustments and the manner in which the practitioner agrees or reconciles the sustainability information with the underlying records depends on the nature and complexity of the sustainability matters, the entity's reporting process and the related risks of material misstatement. The practitioner also may consider whether all activities within the reporting boundary have been included in the sustainability information in accordance with the applicable criteria.

A469R. Other procedures to respond to the risk of management override of controls may include:

- Enquiring with those charged with governance about the appropriateness of the adjustments made by

management in the process for the assembly of the sustainability information.

- Obtaining and examining supporting documentation to determine the rationale, business or otherwise, for the adjustments to the sustainability information.
- Evaluating whether the rationale (or the lack thereof) of the adjustments to the sustainability information suggests that they may have been entered into to engage in fraudulent reporting.
- Inspecting system logs for system overrides or bypasses to controls.

Accumulation and Consideration of Identified Misstatements

Accumulation of Identified Misstatements (Ref: Para. 153)

A470. Uncorrected misstatements are accumulated during the engagement for the purpose of determining whether, individually or in the aggregate, they are material when forming the practitioner's conclusion. "Clearly trivial" is not another expression for "not material." Misstatements that are clearly trivial are of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and are misstatements that are clearly inconsequential, whether taken individually or in the aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial.

A471. For quantitative disclosures, the practitioner may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the practitioner expects that the accumulation of such amounts clearly would not have a material effect on the disclosures.

A472. Clearly trivial may be considered in the context of the impact of the misstatement on the intended users' decisions. As explained in paragraph A36, intended users may include users who may use sustainability information to make resource allocation decisions, or users who may be interested in the impacts described in paragraph A337. The entity's process to identify sustainability information to be reported may inform the practitioner's consideration of identified misstatements and whether they are clearly trivial.

A473. Examples of where or how misstatements in sustainability information may arise:

(a) An inaccuracy in gathering or processing information used to prepare the sustainability information.

(b) Manipulating or obscuring the sustainability information in a manner that would be misleading to the intended users.

(c) Management's judgements involving estimates being considered unreasonable by the practitioner.

(d) The inclusion of inappropriate information, for example, information that does not meet the applicable criteria or a misapplication of the entity's process to identify sustainability information to be reported by management which results in the inclusion of excessive immaterial information that obscures or distorts sustainability information required by the applicable criteria.

(e) The entity's reporting policies to select and apply the criteria are inappropriate or inconsistent with the applicable framework criteria or the criteria used in the relevant industry.

(f) The inclusion of information that is not supported by sufficient appropriate evidence.

(g) The omission of sustainability information, for example, information that, in the practitioner's judgement, should have been disclosed based on the entity's process to identify sustainability information to be reported or that otherwise is required to be disclosed by the applicable criteria, or omitting sustainability information relating to a significant subsequent event that would likely change the decisions of users but has not been adequately disclosed.

(h) Sustainability information that, in the practitioner's judgement, is:

(i) Ambiguous; or

(ii) Capable of being determined precisely, but is presented in a vague manner.

(i) Changes since the previous reporting period to the sustainability information without reasonable justification for doing so or without disclosing the reasons for doing so.

(j) The way the sustainability information is presented, such as:

(i) Out of context, in an unbalanced manner, or given greater or lesser prominence than is warranted, based on the available evidence and applicable criteria; or

(ii) Using superlatives and adjectives that describe a more positive outcome than is supportable.

(k) Inappropriately drawing conclusions, based on selective information, through statements such as the following:

(i) "A large number of companies worldwide," based on information for only a hundred companies; although a hundred may be large, it is not large compared with the number of companies in the world.

(ii) "The numbers have doubled since last year" may be factual, but a small base giving rise to this doubling may not be disclosed.

A474. Some framework criteria may allow the entity to omit information, explain what information has been omitted and why. For example, the entity may be permitted to omit information if a requirement is not applicable, information is unavailable or incomplete, there are legal prohibitions, or confidentiality constraints. In such cases, the omitted information may not be a misstatement. The practitioner may discuss the omission, and the reasons for it, with management, and where appropriate, those charged with governance before concluding whether the omission is a misstatement.

A475. The sustainability information may include a description of the entity's processes, systems or controls regarding the sustainability matters (e.g., the entity's process to identify, assess, and manage current and anticipated sustainability-related risks and opportunities). The scope of the assurance engagement may require the practitioner to conclude:

(a) Whether the description of the entity's process, systems or controls fairly presents the design and implementation of those processes, systems or controls;

(b) Whether the entity's processes, systems or controls are suitable, or operated effectively throughout the period; or

(c) A combination of both.

A476. What constitutes a misstatement when the sustainability information includes a description of the entity's processes, systems or controls, depends on the scope of the engagement. For example:

(a) The scope of the engagement includes whether the entity's processes, systems or controls are suitable and operated effectively throughout the period: If the practitioner determines that the entity's description of the processes, systems or controls inaccurately implies that it is suitably designed or operated effectively throughout the period, this may constitute a misstatement.

(b) The scope of the engagement does not include whether the entity's processes, systems or controls are suitable and operated effectively throughout the period, and the related disclosures about the entity's processes, systems or controls are considered other information: If the practitioner is aware that the entity's description of its processes, systems or controls inaccurately implies that it is suitably designed or operated effectively throughout the period, paragraph 175 applies.

Considering Whether Identified Misstatements May Be Due to Fraud (Ref: Para. 154)

A477. Paragraph 78 requires the practitioner to evaluate whether the applicable criteria are suitable. Criteria that are vague and allow manipulation of the sustainability information may not be suitable for the engagement circumstances. If the criteria are suitable but management intentionally did not apply the criteria appropriately, it may be an indication of misstatement due to fraud.

A478. Misstatements due to fraud may result from intentional:

(a) Manipulation, falsification, or alteration of information or supporting documentation from which the sustainability information is prepared; or

(b) Misrepresentation in, or omission from, the sustainability information.

A479. Examples of misstatements due to fraud in sustainability information:

- Misstating sustainability information to avoid penalties or fines.
- Intentionally inaccurate or misleading public statements or claims that will favourably impact share price or an assessment of the entity's sustainability credentials, such as an inaccurate statement that a bond is a sustainability bond.
- Intentionally reporting sustainability information relating to performance or compensation incentives in a biased way to influence the outcome of the performance reward or compensation.
- Emphasising that a product was produced using recycled materials but intentionally not reporting that the product was produced using forced labour.
- Intentionally reporting topics for which the entity has positive impacts and omitting topics for which the entity has negative impacts.
- Misstating baseline information to make sustainability information look more favourable in subsequent periods.
- Misstating sustainability information associated with specific project milestones, budget approval, or rights to access certain markets or begin projects in certain markets or geographies.

A480. If the practitioner identifies a misstatement that is indicative of fraud, this may have implications in relation to other aspects of the assurance engagement, particularly:

(a) The practitioner's identification and assessment of risks of material misstatements due to fraud at the disclosures level (in a limited assurance engagement), or at the assertion level for disclosures (in a reasonable assurance engagement), and the resulting effect on the nature, timing and extent of further procedures; and

(b) The reliability of management representations, recognising that an instance of fraud is unlikely to be an isolated occurrence.

Consideration of Identified Misstatements as the Engagement Progresses (Ref: Para. 155)

A481. The practitioner may also consider whether accumulated misstatements relate to control deficiencies. Specifically, the practitioner may consider whether the nature or extent of the accumulated misstatements result in the need to update the practitioner's understanding of the entity's system of internal control relevant to the preparation of the sustainability information (see paragraphs 113L and 113R).

Communicating and Correcting Misstatements (Ref: Para. 156–158)

A482. In the case of narrative disclosures, asking management to correct a misstatement may involve management either re-wording or removing the misstated text.

A483. The practitioner's understanding of management's reasons for not making the corrections may indicate possible

bias in management's judgements.

Evaluating the Effect of Uncorrected Misstatements (Ref: Para. 160)

A484. Determining whether uncorrected misstatements are material involves professional judgement in the context of the applicable criteria and the engagement circumstances, including who the intended users are and what disclosures are likely to be important.

A485. The manner in which uncorrected misstatements are evaluated depends on the sustainability information that is the subject of the engagement. For example, if the practitioner provides an assurance conclusion on the entirety of the sustainability information, the practitioner may determine whether the uncorrected misstatements are:

(a) Individually material for each of the disclosures to which they relate. If an individual misstatement in a disclosure is determined to be material, it is unlikely that it can be offset by other misstatements within that disclosure unless the misstatements relate to the same matter and involve the same measurement basis.

(b) If the misstatements are not material individually:

(i) Material in aggregate (i.e., collectively with other misstatements) across specific topics or aspects of topics (see paragraphs A488 and A489).

(ii) Material in aggregate to the entirety of the sustainability information (i.e., in aggregate across all disclosures) (see paragraph A490).

A486. Misstatements of amounts smaller than the materiality for quantitative disclosures may have a material effect on the reported sustainability information from a qualitative perspective. For example, if an error results in a reversal of a declining trend in an indicator, or if an error prevents an entity from achieving regulatory requirements, these may be considered material, even if the quantitative error is smaller than the quantitative threshold.

A487. When the scope of the assurance engagement is a number of metrics, each relating to a different sustainability matter, the practitioner may evaluate the materiality of misstatements separately for each metric as intended users may have different tolerances for misstatement in each metric. For example, intended users' tolerance for misstatements is likely to be higher for a disclosure about non-hazardous, degradable waste, than it would be for a disclosure about radioactive or other hazardous waste.

A488. When the sustainability information is measured using a common measurement basis (e.g., monetary amounts or physical units), the practitioner may be able to accumulate all misstatements together (i.e., as being of the same nature quantitatively and capable of being aggregated). However, the disclosures may relate to multiple topics, may comprise several aspects of the topics, and the sustainability matters may be measured or evaluated using different measurement bases. The practitioner is not required to convert misstatements in different measurement bases into a common base for purposes of accumulating the misstatements and determining whether the sustainability information is materially misstated.

A489. It may be possible, after all non-quantifiable misstatements have been identified, to group them together, for example, by whether they relate, in common, to particular aspects of the sustainability matters. For example, there may be one or more individually immaterial misstatements in the qualitative statements management has made about occupational health and safety and another immaterial misstatement relating to employee diversity. As occupational health and safety and diversity both relate to the social aspect of sustainability information, the practitioner may be able to group these misstatements together and consider their combined effect on the social aspect of the entity's sustainability information. Similarly, a number of immaterial misstatements in the reported water consumption information and another immaterial misstatement relating to waste generated may be able to be considered together as they both relate to the environmental aspect of the sustainability information.

A490. The sustainability information as a whole may be misstated, even though the misstatements are individually immaterial. Even if there are misstatements that are not able to be accumulated by sustainability matter or other common factors, they may exhibit a common direction, narrative, tone or trend. For example, if the effect of the misstatements is to make the sustainability information as a whole look more favourable than it actually is or all

the misstatements overstate the positive aspects of the entity's actions, and downplay the negative aspects, that may add up to give a biased and misleading picture to the users of the sustainability information.

Other Misstatement Considerations

A491. Materiality of uncorrected misstatements is considered in the context of qualitative and, when applicable, quantitative factors. The practitioner may also consider the extent to which users could reasonably be expected to make a different decision if the sustainability information was not misstated. Qualitative factors that may indicate that a misstatement is more likely to be material, include:

Sustainability matters

(a) The entity's process to identify sustainability information to be reported is misaligned with the scope or objective of reporting in accordance with the applicable criteria.

(b) The misstated sustainability information relates to an aspect of the sustainability matter that has been determined as being significant.

(c) There are multiple misstatements related to the same topic of the sustainability matter.

(d) The nature of the misstatements is such that they all overstate or understate the sustainability matter.

External factors

(e) The misstated sustainability information relates to non-compliance with a law or regulation, particularly when the consequence for non-compliance is severe.

(f) The misstated sustainability information relates to sustainability matters that has implications for a large number of the entity's stakeholders. However, there may be situations when the sustainability matter has implications for only a small number of stakeholders but may, nonetheless, have material implications. For example, a small community affected by radioactive contamination of its water supply from effluent from an entity's operations may result in a lawsuit that could have a material impact on the entity and its other stakeholders.

Nature of the sustainability information

(g) The misstatements may indicate doubts as to the feasibility of management's plans. For example, an entity may disclose its policies or commitments to mitigate sustainability-related risks in accordance with the applicable criteria, but evidence obtained may indicate these policies or commitments are unrealistic, rely on unproven technologies, or require financing that the entity is unlikely to be able to obtain.

(h) The misstatement relates to a particular disclosure that is commonly used to compare the entity to its peers.

(i) The misstatement relates to a target or threshold, and the error significantly impacts whether the target or threshold is met (e.g., the magnitude of the error may be small but may have significant consequences for meeting the target).

(j) The misstated information is reporting a significant change in a previously reported position, or a trend that has reversed.

Presentation

(k) The misstatement that has arisen from the presentation of the sustainability information being misleading because the wording that has been used lacks clarity such that it could be interpreted in widely different ways. Accordingly, intended users might make different decisions depending on their interpretation.

Management's behaviour

(l) The misstatement has arisen as a result of fraud by management to mislead intended users.

(m) Management is reluctant to correct the misstatement for reasons other than they consider it immaterial.

(n) Management is reporting aggressive targets or estimates, or is defensive in providing explanations.

A492. Misstatements in qualitative information are as important as misstatements in quantitative information. If the misstatements in qualitative information are not corrected by management, the practitioner may accumulate them by listing them, or marking up or highlighting them in a copy of the sustainability information. When it is not possible to add the misstatements together to determine their effect in the aggregate, the practitioner may consider whether there are any commonalities among the misstatements, such as whether the misstatements reflect a more favourable outcome that is collectively material, or indicate management bias.

A493. Other factors that may help the practitioner evaluate the materiality of misstatements include understanding:

- The underlying cause of identified misstatements. For example, if the qualitative misstatement exists because management has intentionally decided to misrepresent facts, this may indicate the possibility that the sustainability information may contain a material misstatement due to fraud.
- Whether a misstatement may have an indirect effect on misstatements identified in other areas of the engagement. For example, an otherwise immaterial overstatement of an item might indirectly affect a more significant calculation that incorporates the item, causing that calculation to fall below the required minimum threshold included in a contractual requirement, or the qualification criteria for a scheme, grant or funding. Similarly, the lack of a required approval for a relatively unimportant transaction might not be material individually, but it could have implications for the operating effectiveness of controls in areas of the sustainability information that users might consider important.

Measurement or Evaluation Uncertainty

A494. The sustainability matter may have inherent measurement or evaluation uncertainty (for example, the estimation of climate-related risks in the long term across the entity's value chain). As a result of inherent uncertainties relating to the sustainability matter, there may be a wide range of possible outcomes and it may be difficult to identify whether there is a material misstatement of the sustainability information. The practitioner may consider whether the sustainability matter is as precise as is required by the applicable criteria, and the information required by the applicable criteria about the inherent uncertainty is disclosed. Without supporting disclosures to help the intended users understand the uncertainty, the applicable criteria may not be suitable, and the sustainability information may not be presented appropriately. Paragraphs 190(g) and A579 address the appropriate descriptions to be included in the assurance report.

A495. When the uncertainty is not inherent (i.e., when it results from lack of appropriate application of the applicable criteria), it may give rise to misstatements. For example, management may not have used appropriate information to measure or evaluate the sustainability matter that has resulted in it not being as precise as required by the applicable criteria.

A496. Forward-looking information is ordinarily subject to greater measurement or evaluation uncertainty than historical information. As a result, there may be a broad range of possible outcomes, and it may be difficult to identify and evaluate misstatements, including whether the assumptions are:

(a) Reasonable, in the case of a forecast; or

(b) Realistic and in line with the purpose of the information, in the case of projections.

A497. The practitioner may consider ways in which misstatements in forward-looking information may arise, for example:

(a) Data or other information used may not be relevant, complete or reliable;

(b) Assumptions may include information that is not relevant, may omit important considerations, may be internally inconsistent, or may be given inappropriate weighting;

(c) Assumptions may not be consistent with management's decisions or intent; or

(d) There may be unintentional or deliberate misapplication of the assumptions to the data or other information, or in calculations of quantifiable information.

In some cases, misstatements may arise as a result of a combination of these circumstances.

A498. The practitioner may also consider whether there are indicators of possible management bias in the selection of assumptions, methods or data in the way in which the sustainability information is presented that may indicate a misstatement or have implications for the rest of the assurance engagement. For example, indicators of possible management bias may include when management has:

(a) Changed the assumptions or methods used, or has made a judgemental assessment that there has been a change in circumstances, without reasonable justification;

(b) Used assumptions that are inconsistent with assumptions used elsewhere in the entity's business, including for financial statement or operational purposes, or inconsistent with observable marketplace assumptions; or

(c) Selected significant assumptions that favour management's objectives, or that may indicate a pattern or trend.

Evaluating the Description of Applicable Criteria (Ref: Para. 162)

A499. The preconditions for an assurance engagement in paragraph 78 require that the criteria that the practitioner expects to be applied in the preparation of the sustainability information will be available to the intended users. This may be done by references to a description of the applicable criteria, which is available to the intended users, or the inclusion of a description of the applicable criteria and the sources of those criteria in the sustainability information, to enable intended users to understand how:

(a) The content of the sustainability information, such as the topics and aspects of the topics, has been identified and selected;

(b) The intended users' information needs were identified; and

(c) The sustainability matter has been measured or evaluated.

A500. Referencing or describing the applicable criteria and their sources is particularly important when:

(a) There are significant differences between criteria applied by entities in the same industry, region, or jurisdiction that the practitioner expects to have similar circumstances or be equivalent.

(b) The sustainability matter is subject to a high degree of measurement or evaluation uncertainty, such as forward-looking sustainability information, as there may be more variability, or it may be open to greater interpretation than when there is less uncertainty. This may result in sustainability information that could be misunderstood or misinterpreted by intended users.

A501. In evaluating whether the reference or description of the criteria is adequate, the practitioner may consider whether it addresses:

(a) The source of the applicable criteria, and whether the applicable criteria are framework criteria embodied in law or regulation or issued by an authorised or recognised organisation that follows a transparent due process, other framework criteria or entity-developed criteria.

(b) How framework criteria have been applied, including the entity's reporting policies for applying the framework criteria.

(c) For other framework criteria or entity-developed criteria, how the determination was made that these, together with any framework criteria, are suitable.

(d) When applicable framework criteria were not applied, the reasons therefor.

(e) The specific aspects of the criteria related to particular types of sustainability information, for example:

(i) The basis for evaluating the reasonableness of the underlying assumptions for forward-looking information.

(ii) Control objectives for design and operating effectiveness of processes, systems or controls.

(iii) Targets, key performance indicators, commitments or goals for evaluating or measuring performance.

(f) Measurement or evaluation methods used when the applicable criteria allow for choice between a number of methods.

(g) Any significant judgements made in applying the applicable criteria in the engagement circumstances.

(h) The inherent limitations, if any, associated with the measurement or evaluation of the sustainability matter against the applicable criteria.

(i) Other matters relevant to intended users' understanding of the basis for the preparation of the sustainability information, including uncertainties.

(j) Any changes in the measurement or evaluation methods used, and the reasons therefor.

(k) Any deviations from the applicable criteria identified, for example, deviations from a framework that the entity has referred to as being the basis for preparing the sustainability information.

(l) The need for clear meaning, so that the description does not contain imprecise or qualifying language that may result in inconsistent interpretation and provides sufficient detail and clarity to be understandable.

Subsequent Events (Ref: Para. 163–164)

A502. Examples of subsequent events:

- The publication of revised factors, assumptions or benchmarks by a body such as a government agency (e.g., revised emissions factors).
- Changes to relevant legislation or regulations.
- Significant improved scientific knowledge.
- Significant structural changes in the entity.
- The availability of more accurate quantification methods.
- The discovery of a significant fraud or error.
- The discovery of significant water pollution or soil contamination.
- Fatality and other significant health and safety events.

A503R. The practitioner's procedures to identify subsequent events may include:

(a) Obtaining an understanding of any procedures management has established to identify subsequent events.

(b) Enquiring of management, and where appropriate, those charged with governance, as to whether any subsequent events have occurred that may affect the sustainability information.

(c) Reading minutes of meetings of the owners, those charged with governance and management held after the date of the sustainability information and enquiring about matters discussed at any such meetings for which minutes are not yet available.

(d) Reading the entity's monthly or quarterly sustainability information, if available.

A504L. The practitioner's procedures to identify subsequent events may include enquiring of management, and as appropriate, those charged with governance, about whether any subsequent events have occurred that may affect the sustainability information.

A505. The practitioner has no responsibility to perform any procedures regarding the sustainability information after the date of the assurance report. However, if, after the date of the assurance report, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the assurance report, may have caused the practitioner to amend the report, the practitioner may need to discuss the matter with management or those charged with governance or take other action as appropriate in the circumstances.

Written Representations from Management and Those Charged with Governance (Ref: Para. 165)

A506. Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and management, and where appropriate, those charged with governance. The person(s) from whom the practitioner requests written representations will ordinarily be a member of senior management or those charged with governance depending on, for example, the management and governance structure of the entity, which may vary by jurisdiction, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics.

A507. Representations by management and, where appropriate, those charged with governance cannot replace other evidence the practitioner could reasonably expect to be available. Although written representations provide necessary evidence, they do not provide sufficient appropriate evidence on their own about any of the matters with which they deal. Furthermore, the fact that the practitioner has received reliable written representations does not affect the nature or extent of other evidence that the practitioner obtains.

Other Information

Obtaining the Other Information (Ref: Para. 171)

A508. As explained in paragraph 5, the scope of the assurance engagement may extend to all of the sustainability information to be reported by the entity or only part of that information. When the assurance engagement does not cover the entirety of the sustainability information, the term “sustainability information” is to be read as the information that is subject to the assurance engagement.

A509. The objective of the required discussion with management in paragraph 171(a) is to help the practitioner understand the entirety of the sustainability information to be reported, including the sustainability information subject to the assurance engagement, and where it will be reported, to be able to identify the other information required to be read and considered in accordance with paragraph 172. For example, the sustainability information subject to the assurance engagement may be included as part of an entity’s management report, annual report or integrated report, or included with other governance information.

A510. As frameworks and practices for reporting sustainability information may be evolving and new laws and regulations may be imposed over time, the location of the sustainability information and the content of the report(s) in which that information is included may change between periods. As a result, it may not be clear which document(s) comprises the report in which the sustainability information will be published. The practitioner may communicate with those responsible for preparing the entity’s reports, whether management or those charged with governance, the practitioner’s expectations in relation to obtaining the final version of the report(s) that will contain the sustainability information in a timely manner prior to the date of the assurance report. This enables the practitioner to complete the procedures required by this ISSA (NZ) before the date of the assurance report.

A511. When other information is only made available to users via the entity’s website, the final version of the other information obtained from the entity, rather than directly from the entity’s website, is the relevant document on which the practitioner would perform procedures in accordance with this ISSA (NZ). The practitioner has no responsibility under this ISSA (NZ) to search for other information, including other information that may be on the entity’s website. In addition, the practitioner has no responsibility to perform any procedures to confirm that other information is appropriately displayed on the entity’s website or otherwise has been appropriately transmitted or displayed electronically, unless this is within the scope of the assurance engagement.

Reading and Considering the Other Information (Ref: Para. 172)

A512. If the other information is materially inconsistent with the sustainability information subject to the assurance engagement or the practitioner's knowledge obtained in the engagement, it may indicate that there is a material misstatement of the sustainability information or that a material misstatement of the other information exists. This may undermine the credibility of the sustainability information and the assurance report thereon. Such material misstatements may also inappropriately influence the decisions of the users for whom the assurance report is prepared. The procedures with respect to other information may also assist the practitioner in complying with relevant ethical requirements as required by paragraph 34. Relevant ethical requirements require the practitioner to avoid being knowingly associated with information that the practitioner believes contains a materially false or misleading statement, statements or information provided recklessly, or omits or obscures required information where such omission or obscurity would be misleading.

A513. In some cases, disclosures in the other information may summarise, or provide additional details about, the disclosures in the sustainability information subject to the assurance engagement. The practitioner may compare a selection of such disclosures in the other information with the disclosures in the sustainability information subject to assurance. The extent of this comparison is a matter of professional judgement recognising that the practitioner's responsibilities under this ISSA (NZ) do not constitute an assurance engagement on the other information or impose an obligation to obtain assurance about the other information.

Responding When the Practitioner Concludes That a Material Misstatement of the Other Information Exists

Responding When the Practitioner Concludes That a Material Misstatement Exists in Other Information Obtained Prior to the Date of the Assurance Report (Ref: Para. 175–176)

A514. The actions the practitioner takes if the other information is not corrected after communicating with those charged with governance are a matter of professional judgement. The practitioner may take into account whether the rationale given by management and those charged with governance for not making the correction raises doubt about the integrity or honesty of management or those charged with governance, such as when the practitioner suspects an intention to mislead. The practitioner may also consider it appropriate to seek legal advice. In some cases, the practitioner may be required by law, regulation or professional requirements to communicate the matter to a regulator or relevant professional body.

Responding When the Practitioner Concludes That a Material Misstatement Exists in Other Information Obtained After the Date of the Assurance Report (Ref: Para. 175–176)

A515. The practitioner has no obligation to perform any procedures regarding the other information that becomes available after the date the assurance report. However, the practitioner may become aware that a material inconsistency appears to exist between the other information available after the date of the assurance report and the sustainability information or the practitioner's knowledge obtained in the engagement. The practitioner may discuss the matter with management or those charged with governance, as appropriate, and if the other information is not corrected take appropriate action. This may include performing other procedures to conclude whether a material misstatement of the other information or of the sustainability information exists. If the practitioner concludes that a material misstatement exists, but the other information is not corrected, the practitioner may seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the practitioner's report is prepared, considering the practitioner's legal rights and obligations.

Reporting Implications (Ref: Para. 176(a))

A516. In rare circumstances, a disclaimer of conclusion or opinion on the sustainability information may be appropriate when the refusal to correct the material misstatement of the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of evidence in general.

Withdrawal from the Engagement (Ref: Para. 176(b))

A517. Withdrawal from the engagement, when possible under applicable law or regulation, may be appropriate when the circumstances surrounding the refusal to correct the material misstatement of the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the assurance engagement.

Responding When a Material Misstatement in the Sustainability Information Exists or the Practitioner's Understanding of the Entity and Its Environment Needs to Be Updated (Ref: Para. 177)

A518. In reading the other information, the practitioner may become aware of new information that has implications for:

- The practitioner's understanding of the entity and its environment and, accordingly, may indicate the need to revise the practitioner's risk consideration or assessment.
- The practitioner's responsibility to evaluate the effect of identified misstatements on the engagement and of uncorrected misstatements, if any, on the sustainability information.
- The practitioner's responsibilities relating to subsequent events.

Forming the Assurance Conclusion

Evaluating the Evidence Obtained (Ref: Para. 178)

A519. An assurance engagement is an iterative process, and information may come to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based. This may particularly be the case when the entity's information system is less mature or when the disclosures, and their characteristics, are subject to greater judgement. As the practitioner performs planned procedures, the evidence obtained may cause the practitioner to perform additional procedures to meet the intended purpose(s) in performing those procedures. In some circumstances, the practitioner may not have obtained the evidence that the practitioner had expected to obtain through the planned procedures. When the practitioner determines that the evidence obtained from the procedures performed is not sufficient and appropriate to be able to form a conclusion on the sustainability information, the practitioner may:

(a) Extend the work performed; or

(b) Perform other procedures judged by the practitioner to be necessary in the circumstances.

When neither of these is practicable in the circumstances, the practitioner will not be able to obtain sufficient appropriate evidence to be able to form a conclusion.

A520. A procedure may be designed to be effective in achieving an intended purpose, but if the performance or execution of the procedure (i.e., its application) is inappropriate the purpose of the procedure may not be met. Paragraphs 31–63 address the specific responsibilities of the practitioner regarding quality management at the engagement level, and the related responsibilities of the engagement leader, which may affect the application of procedures. In addition, paragraph A116 explains that the review of the engagement team's work consists of considering whether, for example:

(a) The evidence obtained is sufficient and appropriate to provide a basis for the practitioner's assurance conclusion; and

(b) The objectives of the procedures have been achieved.

A521. The practitioner's professional judgement as to what constitutes sufficient appropriate evidence is influenced by such factors as the following:

- Significance of a potential misstatement and the likelihood of it having a material effect, individually or when aggregated with other potential misstatements, on the sustainability information.

- Effectiveness of management or those charged with governance's responses to address the known risk of material misstatement.
- Experience gained during previous assurance engagements with respect to similar potential misstatements.
- Results of procedures performed, including whether such procedures identified specific misstatements.
- Source and reliability of the available information.
- Persuasiveness of the evidence.
- Understanding of the entity and its environment.

A522. The evaluation of evidence obtained related to the preparation of qualitative information or qualitative aspects of quantitative information may include consideration of whether:

(a) There are indicators of possible bias in judgements and decisions in the making of estimates and in preparing the sustainability information;

(b) The quantification methods and reporting policies selected and applied are consistent with the applicable criteria and are appropriate;

(c) The information presented in the sustainability information is relevant, reliable, complete, comparable and understandable;

(d) The sustainability information provides adequate disclosure of the applicable criteria, and other matters, including uncertainties, such that intended users can understand the significant judgements made in its preparation; and

(e) The terminology used in the sustainability information is appropriate.

Evidence Obtained That Is Inconsistent with Other Evidence (Ref: Para. 180)

A523. When evidence is inconsistent with other evidence, it may indicate that some of the information used as evidence is not reliable. This may be the case, for example, when responses to enquiries of management, those charged with governance, internal auditors, or others are inconsistent. Such inconsistencies may therefore call into question the appropriateness of the practitioner's evaluation of the relevance and reliability of such information, in accordance with paragraph 90. Paragraph 94 addresses the practitioner's responsibilities when the practitioner has doubts about the relevance and reliability of information intended to be used as evidence. The extent to which the practitioner may need to modify or add to the procedures to resolve the doubts and the effect on other aspects of the assurance engagement may vary.

A524. When performing a procedure, the practitioner may identify items that are inconsistent with the practitioner's expectations or that exhibit characteristics that are unusual. Different terminology may be used to describe these items, for example, exceptions, outliers, notable items, or items of interest. These items may indicate a possible misstatement in the sustainability information. They may also indicate inconsistencies in evidence, particularly when other evidence has not identified similar exceptions or outliers, or cast doubt on the reliability of the information.

A525. In considering the effect of inconsistencies in evidence on other aspects of the assurance engagement, the practitioner may consider whether the practitioner's risk assessment remains appropriate.

A526. If the practitioner is unable to obtain sufficient appropriate evidence, the practitioner is required to express a qualified conclusion or disclaim a conclusion on the sustainability information, or, if possible, withdraw from the engagement, in accordance with paragraph 185.

Concluding (Ref: Para. 181–184)

A527. In regulatory disclosure regimes, disclosures specified in the relevant law or regulation are adequate for reporting to the regulator. However, additional disclosures in the sustainability information may be necessary for other intended users to understand the significant judgements made in preparing the sustainability information, such as:

(a) The method used for determining the reporting boundary, if the applicable criteria allow a choice between different methods, and which operations are included;

(b) Significant evaluation or quantification methods and reporting policies selected and applied, including:

(i) The entity's process to identify the sustainability matters to be included in the sustainability information (see paragraph A3);

(ii) Any significant interpretations made in applying the applicable criteria in the entity's circumstances, including data sources and, when choices between different methods are allowed, or entity-specific methods are used, disclosure of the method used and the rationale for doing so; and

(iii) How the entity determines whether previously reported disclosures should be restated;

(c) A statement regarding the uncertainties relevant to the entity's quantification of its sustainability information, including: their causes, how they have been addressed and their effects on the sustainability information; and

(d) Changes, if any, in the matters mentioned in this paragraph or in other matters that materially affect the comparability of the sustainability information with a prior period(s) or base year.

Evaluating Whether the Sustainability Information Achieves Fair Presentation (Ref: Para. 182)

A528. In the case of fair presentation criteria, the practitioner's evaluation about whether the sustainability information achieves fair presentation is a matter of professional judgement. This evaluation takes into account such matters as the facts and circumstances of the entity, including changes thereto, based on the practitioner's understanding of the entity and the evidence obtained. The evaluation also includes consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence decisions of intended users taken on the basis of the sustainability information), such as the effect of evolving requirements or the changing environment.

A529. Evaluating whether the sustainability information achieves fair presentation may include, for example, discussions with management and those charged with governance about their views on why a particular presentation was chosen, as well as alternatives that may have been considered. The discussions may include, for example:

- The degree to which the disclosures in the sustainability information are aggregated or disaggregated, and whether the presentation of disclosures obscures useful information, or results in misleading information.
- Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.

Scope Limitation (Ref: Para. 185)

A530. A scope limitation may arise from:

(a) Circumstances beyond the control of the appropriate party(ies). For example, documentation the practitioner considers necessary to inspect may have been accidentally destroyed;

(b) Circumstances relating to the nature or timing of the practitioner's work. For example, a physical process the practitioner considers necessary to observe may have occurred before the practitioner's engagement; or

(c) Limitations imposed by management, those charged with governance, or the engaging party on the practitioner that, for example, may prevent the practitioner from performing a procedure the practitioner

considers to be necessary in the circumstances. Limitations of this kind may have other implications for the engagement, such as for the practitioner's consideration of engagement risk and the acceptance and continuance of the client relationship and the assurance engagement.

A531. An inability to perform a specific procedure does not constitute a scope limitation if the practitioner is able to obtain sufficient appropriate evidence by performing alternative procedures.

Taking Overall Responsibility for Managing and Achieving Quality (Ref: Para. 186(d)(i))

A532. Relevant considerations in determining that the engagement leader's involvement has been sufficient and appropriate throughout the engagement to provide a basis for determining that the significant judgements made and conclusions reached are appropriate, given the nature and circumstances of the engagement, include, for example:

(a) How consultation on difficult, contentious or other matters has been undertaken and conclusions agreed have been implemented;

(b) How differences of opinion have been addressed and resolved; and

(c) How the engagement documentation evidences the engagement leader's involvement throughout the engagement.

A533. Examples of indicators that the engagement leader may not have been sufficiently and appropriately involved:

- Lack of timely review by the engagement leader of the engagement planning, including reviewing the risk assessment procedures performed.
- Evidence that those to whom tasks, actions or procedures have been assigned were not adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and were not provided other necessary instructions and relevant information.
- A lack of evidence of the engagement leader's direction and supervision of the other members of the engagement team and the review of their work.

A534. If the engagement leader's involvement does not provide the basis for determining that the significant judgements made and the conclusions reached are appropriate, the engagement leader will not be able to make the determination required by paragraph 186. In addition to taking into account firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement leader may take, include, for example:

- Updating and changing the engagement plan;
- Reevaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement leader; or
- Consulting with personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

Documentation (Ref: Para. 187)

A535. The requirement to document how the practitioner addressed inconsistencies in information does not imply that the practitioner needs to retain engagement documentation that is incorrect or superseded.

A536. Engagement documentation evidencing the involvement of the engagement leader and the engagement leader's determination in accordance with paragraph 186(d)(i) may be accomplished in different ways depending on the nature and circumstances of the engagement.

Examples:

- Direction of the engagement team can be documented through signoffs of the engagement plan and project management activities;
- Minutes from formal meetings of the engagement team may provide evidence of the clarity, consistency and effectiveness of the engagement leader's communications and other actions in respect of culture and expected behaviours that demonstrate the firm's commitment to quality;
- Agendas from discussions between the engagement leader and other members of the engagement team, and where applicable the engagement quality reviewer, and related signoffs and records of the time the engagement leader spent on the engagement, may provide evidence of the engagement leader's involvement throughout the engagement and supervision of other members of the engagement team; or
- Signoffs by the engagement leader and other members of the engagement team provide evidence that the working papers were reviewed.

Preparing the Assurance Report

Communicating Effectively in the Assurance Report (Ref: Para. 188–189)

A537. The assurance report is the means by which the practitioner communicates the outcome of the assurance engagement to the intended users. Clear communication helps the intended users to understand the assurance conclusion. The practitioner does not report orally or by use of symbols without also providing a written assurance report that is readily available whenever the oral report is provided or the symbol is used, so that the practitioner's conclusion is not misunderstood. For example, a symbol indicating disclosures have been subject to an assurance engagement could be hyperlinked to a written assurance report.

A538. Appendix 3 contains illustrations of assurance reports on sustainability information, incorporating only the basic elements in paragraph 190 for the fact pattern stated above each illustration. The circumstances of the engagement may necessitate additional matters to be included in the assurance report to comply with this ISSA (NZ) or the practitioner may consider that additional matters are needed to aid the understanding of the intended users.

Assurance Report Content (Ref: Para. 190)

A539. This ISSA (NZ) does not require a standardised format for reporting on all assurance engagements. Instead, it identifies the basic elements the assurance report is to include. Assurance reports are tailored to the specific engagement circumstances. The practitioner may use headings, in addition to those required by this ISSA (NZ), paragraph numbers, the bolding of text, and other mechanisms to enhance the clarity and readability of the assurance report.

Title of the Assurance Report (Ref: Para. 190(a))

A540. To be independent, an assurance report is prepared by a practitioner that complies with the independence requirements of Professional and Ethical Standard 1 related to sustainability assurance engagements or requirements that are at least as demanding.

Addressee (Ref: Para. 190(b))

A541. The addressee is usually the engaging party or those charged with governance of the entity. Law or regulation or the terms of the engagement may specify to whom the assurance report is to be addressed in that particular jurisdiction. As well as identifying the addressee of the assurance report, the practitioner may consider it appropriate to include wording in the body of the assurance report that specifies the purpose for which, or the intended users for whom, the report was prepared.

The Practitioner's Conclusion (Ref: Para. 190(c))

The level of assurance obtained (Ref: Para. 190(c)(iii))

A542. When parts of the sustainability information are subject to limited assurance and other parts are subject to reasonable assurance, clear identification in the assurance report of the sustainability information subjected to each level of assurance may aid users' understanding of what has been subject to limited assurance and what has been subject to reasonable assurance. The conclusions relating to each part of the sustainability information may also be distinguished to assist the intended users. In these circumstances, the practitioner's report contains each of the content elements that are common to both levels of assurance, with the content elements for limited assurance and reasonable assurance clearly separated, to comply with paragraph 190.

Identification or description of the sustainability information (Ref: Para. 190(c)(iv))

A543. Identification or description of the sustainability information subject to the assurance engagement and, when appropriate, the sustainability matters, may include:

- The title or other identifying features of the sustainability information and, if applicable any broader report (such as an annual report or integrated report) within which the sustainability information is reported.
- If the sustainability information subject to the assurance engagement is not the entire sustainability information reported, identification of the part of the sustainability information subject to the assurance engagement, and if necessary to assist users' understanding, identification of the sustainability information not subject to the assurance engagement (see also paragraph A544).
- Where applicable, the name of other entity(ies) (such as entities in the value chain), facility(ies), location(s), jurisdiction(s) or other boundary(ies) to which the sustainability matters relate.
- An explanation of those characteristics of the sustainability matters or the sustainability information of which the intended users should be aware, and how such characteristics may influence the precision of the measurement or evaluation of the sustainability matters against the applicable criteria, or the persuasiveness of available evidence. For example:
    - The degree to which the sustainability information is qualitative versus quantitative, narrative versus numeric, objective versus judgemental, or historical versus forward-looking.
    - Changes in the sustainability matters, criteria or other engagement circumstances that affect the comparability of the sustainability information from one period to the next.

A544. In some circumstances, the entity may refer to the fact that certain sustainability information (e.g., information related to a value chain entity outside of the entity's control) has been subject to assurance, and may also include a reference in the sustainability information to the report of the practitioner that performed that assurance engagement. Such references could imply that the practitioner is taking responsibility for the content of, or conclusions expressed, in the assurance report of that other practitioner. In these circumstances, the practitioner may decide to clearly identify these references as not being subject to the assurance engagement.

Expression of the practitioner's conclusion (Ref: Para. 190(c)(vi)–(vii), 198L, 198R)

A545L. Examples of conclusions expressed in a form appropriate for a limited assurance engagement:

(a) When expressed in terms of the sustainability information and the applicable criteria:

(i) Under a compliance framework: "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [sustainability information] is not prepared, in all material respects, in accordance with XYZ criteria."

(ii) Under a fair presentation framework: "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [sustainability

information] is not fairly presented, in all material respects, in accordance with XYZ criteria."

(b) When expressed in terms of a statement made by the appropriate party:

(i) Under a compliance framework: "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [appropriate party's] statement that [the entity] has complied, in all material respects, with XYZ requirements is not properly prepared."

(ii) Under a fair presentation framework: "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [appropriate party's] statement that the [sustainability information] is prepared in accordance with XYZ criteria is not, in all material respects, fairly stated."

A546R. Examples of conclusions expressed in a form appropriate for a reasonable assurance engagement:

(a) When expressed in terms of the sustainability information and the applicable criteria:

(i) Under a compliance framework: "In our opinion, the entity's [sustainability information] is prepared, in all material respects, in accordance with XYZ criteria;" or

(ii) Under a fair presentation framework: "In our opinion, the entity's [sustainability information] is fairly presented, in all material respects, in accordance with XYZ criteria;"

(b) When expressed in terms of a statement made by the appropriate party:

(i) Under a compliance framework: "In our opinion, the [appropriate party's] statement that the entity has complied with XYZ requirement is, in all material respects, properly prepared" or

(ii) Under a fair presentation framework: "In our opinion, the [appropriate party's] statement that the [sustainability information] is prepared in accordance with XYZ criteria is, in all material respects, fairly stated."

A547. Forms of expression that may be useful for sustainability matters include, for example, one, or a combination of, the following:

- For compliance frameworks—"in compliance with" or "in accordance with."
- For engagements when the applicable criteria describe a methodology for the preparation or presentation of the sustainability information—"properly prepared."
- For engagements when the principles of fair presentation are embodied in the applicable criteria—"fairly stated" or "presents fairly."

Identification of the applicable criteria (Ref: Para. 190(c)(vii))

A548. In order for the practitioner to accept or continue the engagement, paragraph 81 requires the preconditions to be met, including that the criteria will be available to the intended users. Management or those charged with governance may make the applicable criteria available to users, either in the sustainability information or by reference, in order for the intended users to understand the basis of preparation of the sustainability information. The entity's sustainability information or the description of the criteria referenced, may include matters such as:

- Details of the sources of the applicable criteria, and whether or not the applicable criteria are framework criteria, embodied in law or regulation, or issued by an authorised or recognised organisation that follow a transparent due process, and if they are not, who developed the criteria, the basis for that development (such as how the intended users' needs were identified) and a description of why they are considered suitable.

- Reporting policies for the measurement or evaluation methods used, including when the applicable criteria allow for choice between a number of methods.
- Any significant interpretations made in applying the applicable criteria.
- Whether there have been any changes in reporting policies for the measurement or evaluation methods used since the prior period.

A549. A statement that management has prepared the sustainability information in accordance with particular criteria is appropriate only if the sustainability information complies with all the requirements of those criteria that are effective during the period covered by the sustainability information.

A550. A description of the applicable criteria that contains imprecise qualifying or limiting language (for example, "the sustainability information is in substantial compliance with the requirements of XYZ") is not an adequate description as it may mislead users of the sustainability information.

A551. Sometimes management may report the sustainability information using more than one framework. In such a case, user understanding is likely to be enhanced if management or those charged with governance make available the criteria relating to each framework separately, rather than being summarised or combined. When management prepares the sustainability information in accordance with multiple frameworks (e.g., a national framework and a global framework), those frameworks represent the applicable criteria and are identified in accordance with paragraph 190(c)(vii), if each framework is complied with individually. If the sustainability information is prepared in accordance with one sustainability reporting framework and, in addition, discloses the extent to which the sustainability information complies with another framework, such disclosure is covered by the assurance conclusion if it cannot be clearly differentiated from the sustainability information.

Informing the intended users of the context in which the practitioner's conclusion is to be read (Ref: Para. 190(c)(ix))

A552. It may be appropriate to inform the intended users of the context in which the practitioner's conclusion is to be read when the assurance report includes an explanation of particular characteristics of the sustainability matter of which the intended users should be aware. The practitioner's conclusion may, for example, include wording such as: "This conclusion has been formed on the basis of the matters outlined elsewhere in this independent assurance report."

Basis for Conclusion Section (Ref: Para. 190(d))

Statement that the engagement was conducted in accordance with this ISSA (NZ) (Ref: Para. 190(d)(i))

A553. Practitioner's statements that contain imprecise or limiting language (for example, "the engagement was performed by reference to (or based on) ISSA (NZ) 5000") may mislead users of assurance reports. In these circumstances, users may understand that all of the requirements of this ISSA (NZ) have all been complied with, even if they have not (see paragraph 20).

Statement about independence requirements specific to certain entities (Ref: Para 190(d)(v))

A554. Relevant ethical requirements may:

- Establish independence requirements that are specific to sustainability assurance engagements of certain entities specified in the relevant ethical requirements, such as the independence requirements for sustainability assurance engagements of public interest entities in Professional and Ethical Standard 1.
- Require the practitioner to publicly disclose when the practitioner applied independence requirements specific to sustainability assurance engagements of certain entities. For example, Professional and Ethical Standard 1 requires that when a firm has applied the independence requirements for public interest entities in performing a sustainability assurance engagement of an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity.

Responsibilities for the Sustainability Information (Ref: Para. 190(f))

A555. Identifying relative responsibilities informs the intended users that management, or those charged with governance, as appropriate, is responsible for the preparation of the sustainability information, and that the practitioner's role is to independently express a conclusion about the sustainability information.

A556. Those charged with governance instead of management may be responsible for the sustainability information depending on the engagement circumstances and the legal framework in the particular jurisdiction. In other jurisdictions, those charged with governance may be responsible for the oversight of the process to prepare the sustainability information, and management fulfils the responsibilities described in paragraph 190(f)(i).

Applicability of responsibility for fair presentation of the sustainability information (Ref: Para. 190(f)(i)a.)

A557. Some criteria acknowledge explicitly or implicitly the concept of fair presentation. As noted in the definition of criteria (see paragraph 18), fair presentation criteria not only require compliance with the criteria, but also acknowledge explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the criteria. Therefore, the responsibilities of management or those charged with governance, as appropriate, for preparing the sustainability information in accordance with a fair presentation framework, extend to whether fair presentation is achieved in the sustainability information presented.

Inherent Limitations in Preparing the Sustainability Information (Ref: Para. 190(g))

A558. While in some cases inherent limitations can be expected to be well understood by the intended users, in other cases it may be appropriate for the practitioner to make explicit reference to them in the assurance report. This may particularly be the case when inherent measurement or evaluation uncertainties may be fundamental to intended users' understanding of the sustainability information. For example, for greenhouse gas emissions, it may be appropriate to note that the entity's disclosures about Scope 3 emissions are subject to more inherent limitations than for Scope 1 and Scope 2 emissions, given the lack of availability and relative precision of information used for determining both qualitative and quantitative Scope 3 information from value chain entities outside the control of the group.

A559. Management may choose to explain limitations on the ability to obtain information from value chain entities included in the sustainability information reported and, if not, the practitioner may discuss with management whether to do so. The practitioner may also choose to describe the effects on the practitioner's procedures in the assurance report (e.g., in the Inherent Limitations section of the report). However, it is important that any such description in the assurance report does not imply that the practitioner's responsibility for obtaining sufficient appropriate evidence to support the assurance conclusion is reduced with respect to such information.

A560. For engagements on sustainability information containing forward-looking information (i.e., goals or targets, forecasts, scenario analyses or transition plans) the preparation of this information may be subject to inherent limitations. If the practitioner describes such limitations in an Inherent Limitations section of the assurance report, such description may refer to management's explanation, if any, and state that:

- For a forecast expressed as specific disclosure(s): Actual results are likely to be different from the forecast sustainability information since anticipated events frequently do not occur as expected and the variation could be material;
- For a forecast expressed as a range: For forecast information expressed in a range the actual results may fall outside of that range and the variation could be material; or
- For projections, scenario analyses or transition plans: The forward-looking sustainability information has been prepared for (state purpose), using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, users are cautioned that the forward-looking sustainability information is not used for purposes other than that described.

An Informative Summary of the Work Performed as the Basis for the Practitioner's Conclusion (Ref: Para. 190(i))

A561. For engagements that require the practitioner to obtain different levels of assurance on different topics, aspects of topics or disclosures, the practitioner may also delineate the procedures performed for each level of assurance so that it is clear to the users which procedures were performed in relation to the sustainability information.

A562R.The assurance report in a reasonable assurance engagement requires a section with the subheading "Practitioner's Responsibilities" that briefly describes procedures performed (see paragraph 190(h)(iv-v)). This is because, in a reasonable assurance engagement, describing in any level of detail the specific procedures performed would not assist users to understand that, in all cases where an unmodified conclusion is issued, sufficient appropriate evidence has been obtained to enable the practitioner to form a reasonable assurance conclusion.

A563L. In a limited assurance engagement, an appreciation of the nature, timing and extent of procedures performed is essential for the intended users to understand the conclusion expressed in the limited assurance report. The summary of work performed is therefore ordinarily more detailed than the procedures described in the Practitioner's Responsibilities section in a reasonable assurance report. It also may be appropriate to include a description of procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the procedures in a limited assurance engagement vary in nature and timing from, and are less than for, a reasonable assurance engagement.

A564L. Factors to consider in determining the level of detail to be provided in the summary of work performed may include:

- Circumstances specific to the entity (e.g., the differing nature of the entity's activities compared to those typical in the sector).
- Specific engagement circumstances affecting the nature and extent of the procedures performed.
- The intended users' expectations of the level of detail to be provided in the report, based on market practice, or applicable law or regulation.

A565L. In describing the procedures performed in a limited assurance report, it is important that they are written in an objective way but are not summarised to the extent that they are ambiguous, nor written in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is also important that the description of the procedures not give the impression that an agreed-upon procedures engagement has been undertaken, and in most cases will not detail the entire work plan. The procedures for limited assurance, which are described in the "Summary of Work Performed" section, may appear to a user to be more comprehensive than the procedures described in a reasonable assurance engagement, so it may be helpful for the practitioner to explain why this is the case. This may be accomplished by including in the assurance report an indication of the differences between limited assurance and reasonable assurance to aid user understanding, especially when both reasonable and limited assurance are in the same assurance report.

Date of the Assurance Report (Ref: Para. 190(l))

A566. Including the assurance report date informs the intended users that the practitioner has considered the effect on the sustainability information and on the assurance report of events that occurred up to that date.

Form of the Assurance Report (Ref: Para. 190)

A567. An assurance conclusion expressed in a binary manner (e.g., concludes that the sustainability information either has, or has not, been prepared in accordance with the applicable criteria) may not be able to communicate sufficiently the complexities that may be present in a sustainability assurance engagement without additional contextual information to aid the intended users' understanding. The practitioner may choose a "short-form" or "long-form" style of reporting to facilitate effective communication to the intended users. "Short-form" reports ordinarily include only the basic elements, as required by paragraph 190. "Long-form" reports include other information and explanations that are not intended to affect the practitioner's conclusion, such as:

(a) Detailed description of the terms of the engagement;

(b) Findings relating to particular aspects of the engagement;

(c) Details of the qualifications and experience of the practitioner and others involved with the engagement;

(d) The practitioner's considerations of materiality, and whether those considerations are in respect of qualitative or quantitative sustainability information;

(e) The intended users of the assurance report and the purpose for which it has been prepared;

(f) The range of competencies that were needed to perform the engagement and how they have been deployed on the engagement; or

(g) Explanation of why, in an assurance engagement, the practitioner cannot become involved in the preparation of the sustainability information because such an engagement is designed to give a conclusion by an independent practitioner over the sustainability information.

The practitioner may find it helpful to consider the significance of providing such information to the information needs of the intended users. As required by paragraph 189, additional information is clearly separated from the practitioner's conclusion and phrased in such a manner so as to make it clear that it is not intended to detract from that conclusion.

A568. Including the practitioner's recommendations on matters, such as improvements to the entity's information system, in the assurance report may imply that those matters have not been appropriately dealt with in preparing the sustainability information. Such recommendations may be communicated, for example, in a management letter or in discussion with those charged with governance. Considerations relevant to deciding whether to include recommendations in the assurance report include whether their nature is relevant to the information needs of intended users, and whether they are worded appropriately so that they will not be misunderstood as a qualification of the practitioner's conclusion on the sustainability information.

A569. In addition to the basic elements described in paragraph 190, the practitioner may decide to include additional information in the assurance report (see paragraph A567). Matters that may be relevant to the practitioner's decision to include such additional information may include:

(a) Sustainability information may be prepared for diverse groups of users, and may cover sustainability matters that are diverse in nature, ranging from a single aspect, such as greenhouse gases emitted by the entity during a period, through to an entity's strategy, business model and performance, which may comprise:

- Historical information.
- Forward-looking information.
- Processes, systems and controls.
- Performance against targets, goals or commitments.

(b) The sustainability matters may be complex to measure or evaluate, or be subject to measurement or evaluation uncertainties, which the intended users may not be aware of.

(c) The criteria used to measure or evaluate them may be set out in an established framework, may be developed by the entity, or may be selected from various frameworks, with or without further development by the entity, making it difficult for a user to understand how the sustainability information has been prepared.

(d) The sustainability information may be presented in the form of a traditional standalone report, or as part of a larger report or reports. It may also be presented partially in narrative and partially through the use of graphs, images, embedded videos or similar representations. The presentation could support the users' understanding of what is, and what is not, subject to the assurance engagement.

Name of the Engagement Leader in the Assurance Report (Ref: Para. 191)

A570. The objective of the firm in Professional and Ethical Standard 3 is to design, implement and operate a system of quality management that provides the firm with reasonable assurance that:

- The firm and its personnel fulfil their responsibilities in accordance with professional requirements and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement leaders are appropriate in the circumstances.

Notwithstanding the objective of Professional and Ethical Standard 3, naming the engagement leader in the assurance report is intended to provide further transparency to the users of the assurance report on sustainability information of a FMC reporting entity considered to have a higher level of public accountability.

A571. Law, regulation or national standards may require that the practitioner's report include the name of the engagement leader responsible for assurance reports other than those of sustainability information of FMC reporting entities considered to have a higher level of public accountability. The practitioner may also be required by law, regulation or national standards, or may decide to include additional information beyond the engagement leader's name in the assurance report to further identify the engagement leader, for example, the engagement leader's professional license number that is relevant to the jurisdiction where the engagement leader practices.

A572. In rare circumstances, the practitioner may identify information or be subject to experiences that indicate the likelihood of a personal security threat that, if the identity of the engagement leader is made public, may result in physical harm to the engagement leader, other engagement team members or other closely related individuals. However, such a threat does not include, for example, threats of legal liability or legal, regulatory or professional sanctions. Discussions with those charged with governance about circumstances that may result in physical harm may provide additional information about the likelihood or severity of the significant personal security threat. Law, regulation or national standards may establish further requirements that are relevant to determining whether the disclosure of the name of the engagement leader may be omitted.

Reference to a Practitioner's Expert in the Assurance Report (Ref: Para. 192)

A573. In some cases, law or regulation may require a reference to the work of a practitioner's expert in the assurance report, for example, for the purposes of transparency in the public sector. It may also be appropriate in other circumstances, for example, to explain the nature of a modification of the practitioner's conclusion, or when the work of an expert is integral to findings included in a long-form report. In such circumstances, the practitioner may need the permission of the practitioner's expert before making such a reference.

A574. As the practitioner has sole responsibility for the assurance conclusion expressed, it is important that, if the assurance report refers to a practitioner's expert, the wording of that report does not imply that the practitioner's responsibility for the conclusion expressed is reduced because of the involvement of that expert. For example, in describing the practitioner's approach to an estimate that has been identified as having high estimation uncertainty, the practitioner may wish to highlight that the practitioner employed or engaged a practitioner's expert without identifying that expert. Such a reference to the use of a practitioner's expert does not reduce the practitioner's responsibility for the conclusion on the sustainability information and is therefore not inconsistent with paragraph 192.

A575. A generic reference in a long-form report to the engagement having been conducted by suitably qualified personnel, including subject matter experts and assurance specialists, is unlikely to be misunderstood as reduced responsibility. The potential for misunderstanding is higher, however, in the case of short-form reports, where minimum contextual information is able to be presented, or when law or regulation require the practitioner's expert to be referred to by name. Therefore, additional wording may be needed in such cases to prevent the assurance report implying that the practitioner's responsibility for the conclusion expressed is reduced.

Other Reporting Responsibilities

Assurance Report Prescribed by Law or Regulation (Ref: Para. 193–194)

A576. In some jurisdictions, the practitioner may have additional responsibilities to report on other matters that are additional to the practitioner's responsibilities under this ISSA (NZ). For example, the practitioner may be required to provide a conclusion on specific matters, such as compliance of the sustainability information with a digital taxonomy. Assurance standards in the specific jurisdiction often provide guidance on the practitioner's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.

A577. In some cases, the relevant law or regulation may require or permit the practitioner to report on these other responsibilities as part of their assurance report on the sustainability information. In other cases, the practitioner may be required or permitted to report on them in a separate report.

A578. Paragraphs 193–194 permit combined presentation of other reporting responsibilities and the practitioner's responsibilities under this ISSA (NZ) only when they address the same elements as those presented under the reporting responsibilities required by this ISSA (NZ) and the wording of the assurance report clearly differentiates the other reporting responsibilities from those under this ISSA (NZ). Such clear differentiation may make it necessary for the assurance report to refer to the source of the other reporting responsibilities and to state that such responsibilities are beyond those required under ISSA (NZ) 5000. Otherwise, other reporting responsibilities are required to be addressed in a separate section in the assurance report with the heading "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section.

Emphasis of Matter Paragraph and Other Matter Paragraph

The Difference between Inherent Limitations, Emphasis of Matter and Other Matter Paragraphs (Ref: Para. 199)

A579. When significant inherent limitations are described in the assurance report in accordance with paragraph 190(g), the description of those inherent limitations is different from including an Emphasis of Matter paragraph in the assurance report. Inherent limitations are present in the measurement or evaluation of the sustainability matters, irrespective of whether they have been disclosed by management. However, it may be useful for management to disclose such inherent limitations in greater detail within the sustainability information. In some cases, the inherent measurement or evaluation uncertainties may be fundamental to the users' understanding of the sustainability information and may be described within the sustainability information.

A580. An Emphasis of Matter paragraph can only draw attention to a matter which is presented or disclosed by management in the sustainability information. The content of an Emphasis of Matter paragraph includes a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the sustainability information. It also indicates that the practitioner's conclusion is not modified in respect of the matter emphasised. An Emphasis of Matter paragraph may be appropriate when, for example:

(a) Different criteria have been used or the criteria have been revised, updated or interpreted differently than in prior periods and this has had a fundamental effect on the sustainability information.

(b) A system breakdown for part of the period impacted the operation of controls or recording of matters material to the engagement.

A581. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the sustainability information. An Other Matter paragraph does not include information that the practitioner is prohibited from providing by law, regulation or professional requirements, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management. An Other Matter paragraph may be appropriate when, for example, the scope of the engagement has changed significantly from the prior period and this has not been stated in the sustainability information.

A582. A widespread use of Emphasis of Matter or Other Matter paragraphs may diminish the effectiveness of the practitioner's communication of such matters. Emphasis of Matter or Other Matter paragraphs are not a substitute for a modified assurance conclusion.

Criteria Designed for a Specific Purpose (Ref: Para. 200)

A583. In some cases, the applicable criteria used to measure or evaluate the sustainability matter may be designed for a specific purpose. For example, a regulator may require certain entities to use particular applicable criteria designed for regulatory purposes. To avoid misunderstanding, the practitioner alerts readers of the assurance report to this fact and that, therefore, the sustainability information may not be suitable for another purpose.

A584. In addition to the alert required by paragraph 200, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, for example, the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the assurance report. While an assurance report may be restricted in this way, the absence of a restriction regarding a particular user or purpose does not in itself indicate that a legal responsibility is owed by the practitioner in relation to that user or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

Other Information (Ref: Para. 201–202)

A585. When the practitioner disclaims a conclusion on the sustainability information, the assurance report does not include an "Other Information" section because providing further details about the engagement, including a section to address other information, may overshadow the disclaimer of conclusion on the sustainability information as a whole.

A586. If the other information includes the financial statements that have been audited by the practitioner or the practitioner's firm, ordinarily this is acknowledged in the Other Information section of the assurance report by expanding the statement required by paragraph 202(c) to indicate that a conclusion is not provided on the other information as part of the engagement on the sustainability information, but the practitioner or the practitioner's firm has audited the financial statements that form part of the other information and provided a separate auditor's opinion thereon that is included with the other information.

Modified Conclusion (Ref: Para. 203–206)

Impact of Qualified Conclusions Due to Limitation of Scope on the Statement on Other Information (Ref: Para. 203(a))

A587. When there is a limitation of scope with respect to a material item in the sustainability information, the practitioner will not have obtained sufficient appropriate evidence about that matter. In these circumstances, the practitioner may be unable to conclude whether or not the disclosures in the other information related to this matter result in a material misstatement of the other information. Accordingly, the practitioner may need to modify the statement required by paragraph 202(e)(i) to refer to the practitioner's inability to consider management's description of the matter in the other information in respect of which the assurance conclusion on the sustainability information has been qualified as explained in the Basis for Qualified Conclusion paragraph. The practitioner is nevertheless required to report any other uncorrected material misstatements of the other information that have been identified.

Impact of Modified Conclusions Due to Uncorrected Misstatements on the Statement on Other Information (Ref: Para. 203(b))

A588. A qualified or adverse assurance conclusion on the sustainability information may not have an impact on the statement on other information required by paragraph 202(e) if the matter for which the assurance conclusion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. In other circumstances, there may be implications for such reporting as described in paragraphs A589–A590.

A589. When the assurance conclusion is qualified, consideration may be given as to whether the other information is also materially misstated for the same matter as, or a related matter to, the matter giving rise to the qualified conclusion on the sustainability information.

A590. An adverse conclusion on the sustainability information relating to a specific matter(s) described in the Basis for Adverse Conclusion paragraph does not justify the omission of reporting of material misstatements of the other information that the practitioner has identified in the assurance report in accordance with paragraph 202(e)(ii). When an adverse conclusion has been expressed on the sustainability information, the practitioner may need to appropriately modify the statement required by paragraph 202(e)(ii), for example, to indicate that the disclosures in the other information are materially misstated for the same matter as, or a related matter to, the matter giving rise to the adverse conclusion on the sustainability information.

Effects of the Matter Are Pervasive (Ref: Para. 204)

A591. The term 'pervasive' describes the effects on the sustainability information of misstatements or the possible effects on the sustainability information of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate evidence. Pervasive effects on the sustainability information are those that, in the practitioner's professional judgement:

(a) Are not confined to specific aspects of the sustainability information;

(b) If so confined, represent or could represent a substantial proportion of the sustainability information; or

(c) In relation to disclosures, are fundamental to the intended users' understanding of the sustainability information.

A592. The nature of the matter, and the practitioner's judgement about the pervasiveness of the effects or possible effects on the sustainability information, affects the type of conclusion to be expressed.

Examples of Modified Conclusions (Ref: Para. 203)

A593L. Examples of a qualified conclusion for a limited assurance engagement (with a material misstatement)

- Qualified conclusion (compliance framework) – "Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the [sustainability information] is not prepared, in all material respects, in accordance with XYZ criteria."
- Qualified conclusion (fair presentation framework) – "Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the [sustainability information] is not fairly presented, in all material respects, in accordance with XYZ criteria."

A594R. Examples of qualified conclusion for a reasonable assurance engagement (with a material misstatement):

- Qualified conclusion (compliance framework) – "Except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, the [sustainability information] is prepared, in all material respects, in accordance with XYZ criteria."
- Qualified conclusion (fair presentation framework) – "Except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, the [sustainability information] is fairly presented, in all material respects, in accordance with XYZ criteria."

A595. Examples of adverse conclusions and a disclaimer of conclusion for both limited and reasonable assurance engagements:

- Adverse conclusion (an example for a material and pervasive misstatement for information prepared under a compliance framework) – "Because of the significance of the matter described in the Basis for Adverse Conclusion section of our report, the [sustainability information] is not prepared in accordance with "XYZ criteria."
- Adverse conclusion (an example for a material and pervasive misstatement for information prepared under a fair presentation framework) – "Because of the significance of the matter described in the Basis for Adverse Conclusion section of our report, the [sustainability information] does not present fairly the entity's compliance with XYZ criteria."
- Disclaimer of conclusion (an example for a material and pervasive limitation of scope) – "Because of the significance of the matter described in the Basis for Disclaimer of Conclusion section of our report, we have not been able to obtain sufficient appropriate evidence to form a conclusion on the [sustainability information]. Accordingly, we do not express a conclusion on that [sustainability information]."

Comparative Information (Ref: Para. 207–211)

A596. Law or regulation, the criteria or the terms of the engagement, may specify the requirements regarding the presentation, reporting and assurance of the comparative information in the sustainability information.

A597. If there are inconsistencies between the comparative information and the current-period sustainability information, the practitioner may consider the reasons for those differences to evaluate whether those inconsistencies are addressed in accordance with the criteria. When sustainability information includes comparisons of period-on-period information, such as references to percentage reductions or increases in measures or key performance indicators, it is important that the practitioner consider the appropriateness of the comparisons. These may be inappropriate due to:

(a) Significant changes in operations from the prior period;

(b) Significant changes in conversion factors;

(c) Significant changes in assumptions, or

(d) Inconsistency of sources or methods of measurement or evaluation.

A598. Information reported in a prior period may need to be restated in accordance with law or regulation or the applicable criteria because of, for example, improved scientific knowledge, significant structural changes in the entity, the availability of more accurate quantification methods, or the discovery of a significant error.

A599. When comparative information is presented with the current sustainability information, but some or all of that comparative information is not referred to in the practitioner's conclusion, it is important that the status of such information is clearly identified in both the sustainability information and the assurance report in accordance with paragraphs 209 and 210.

A600. The identification of information required under paragraphs 209 and 210 to be included in an "Other Matter" paragraph with respect to an assurance engagement conducted on the comparative information in the prior period, may be complex and lengthy. In these circumstances, it may be appropriate to include this information by way of reference if it is included in the sustainability information, or as an attachment to the assurance report.

A601. If the engagement does not include assurance on comparative information, the requirement to perform procedures in the circumstances addressed by paragraph 211 is to satisfy the practitioner's ethical obligation to not knowingly be associated with materially false or misleading information.

Documentation

Matters Arising After the Date of the Practitioner's Report (Ref: Para. 212)

A602. Examples of exceptional circumstances include facts that become known to the practitioner after the date of the assurance report but which existed at that date and which, if known at that date, might have caused the sustainability information to be amended or the practitioner to modify the conclusion in the assurance report, for example, the discovery of a significant uncorrected error. The resulting changes to the engagement documentation are reviewed in accordance with the firm's policies or procedures with respect to the nature, timing and extent of the review of engagement team members' work as required by Professional and Ethical Standard 3, with the engagement leader taking final responsibility for the changes.

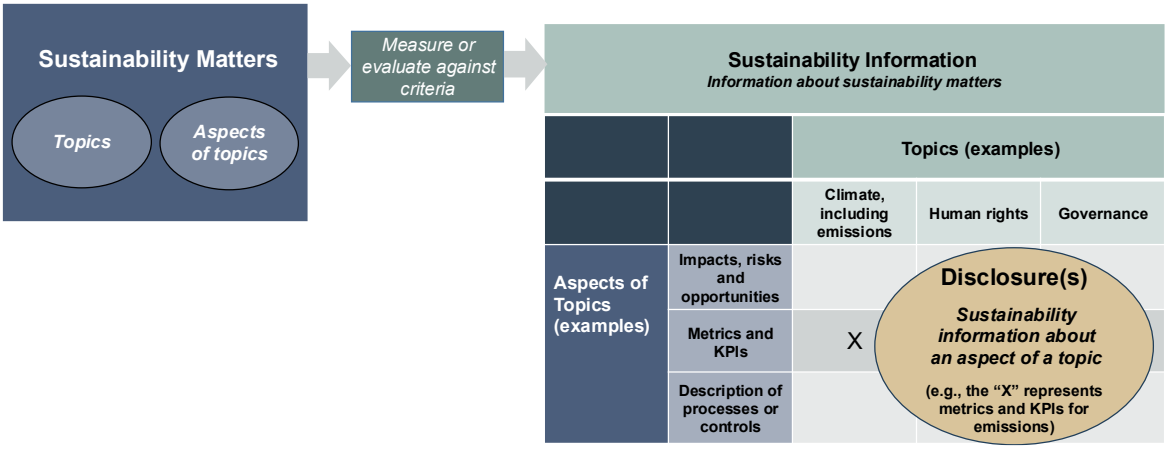
Appendix 1

(Ref: Para. 2, A21–A22)

Sustainability Matters and Sustainability Information

1. This appendix explains the relationship between sustainability matters (i.e., the underlying subject matter); sustainability information (i.e., the subject matter information), which results from measuring or evaluating the sustainability matters against the criteria; and the related disclosures.

2. This relationship can be illustrated as follows:



3. Paragraph 75 requires the practitioner to obtain a preliminary knowledge of the sustainability information to be reported by the entity. As a part of establishing whether the preconditions for an assurance engagement are present, paragraph 76(a) requires the practitioner to consider whether the entity has a process to identify sustainability information to be reported.

4. As explained in paragraph 3, sustainability information is reported in accordance with the criteria. The topics and aspects of topics of sustainability matters are considered by management in determining the sustainability information to be reported, and are manifested in the related disclosures. A disclosure represents sustainability information reported by the entity about an aspect of a topic. A more comprehensive list of examples of topics and aspects of topics is provided in paragraph A43.

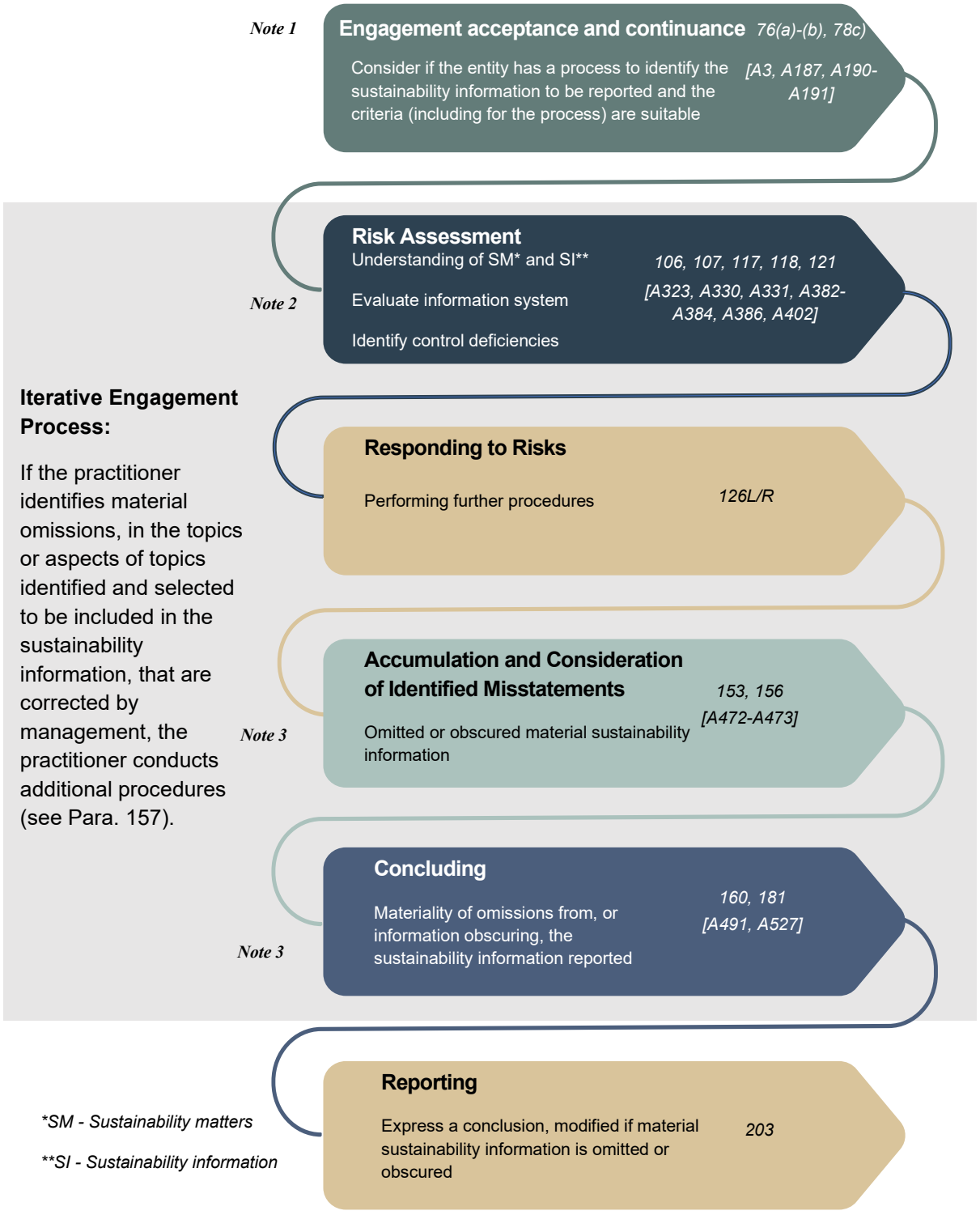
5. Disclosures can be in various forms (e.g., narrative descriptions or other qualitative information, tables with key performance indicators or other quantitative information, or a combination thereof) and may be limited to a single paragraph or table or may span multiple pages in a separate sustainability report, part of the entity's annual report or some other reporting mechanism. How the entity presents the disclosures (i.e., how the entity aggregates or disaggregates the sustainability information for purposes of presentation) is determined by the criteria. Whether and how the practitioner may further group the disclosures for purposes of planning and performing the engagement is a matter of professional judgement, as explained in paragraph A287.

Appendix 2

(Ref: Para. 4, A3)

The Practitioner's Consideration of the Entity's Process to Identify Sustainability Information to be Reported

1. This appendix sets out the requirements and application material relevant to the practitioner's conduct of an engagement, in the circumstances when the entity has a process to identify sustainability information to be reported, as described in paragraph 4.



Notes to the flowchart:

1. The practitioner is required to consider whether the entity has a process to identify the sustainability information to be reported (paragraph 76(a)). The practitioner is also required to evaluate the suitability of the criteria for the sustainability information, which would include understanding whether the entity is required to have such a process and whether the criteria in respect of that process exhibit the suitability characteristics in paragraph 78(c), in particular the relevance and completeness of the criteria.

2. As part of the practitioner's understanding of the entity's information system and controls, the practitioner obtains an understanding of the entity's process, and based on that understanding, and in the context of the reporting framework, the practitioner evaluates whether it appropriately supports the preparation of the sustainability information (paragraphs 117 and 118). The practitioner's understanding of the entity's process, along with other risk assessment procedures, may highlight where there are risks of material misstatement, including in relation to the completeness of the sustainability information to be reported.

3. Misstatements accumulated include any misstatements arising from material omissions in, or obscuring of, the sustainability information to be reported.

Requirements and application material for reference

Requirement [Application Material] Paragraph Number	**Relevant extract of the requirement wording** The practitioner shall…
76 (a) [A3, A187]	Consider whether the entity has a process to identify the sustainability information to be reported.
76 (b) [A190–A191]	Evaluate whether management, or those charged with governance, when appropriate, have a reasonable basis for the sustainability information.
78	Evaluate whether the criteria that the practitioner expects to be applied in the preparation of the sustainability information are suitable for the engagement circumstances and will be available to the intended users. In doing so, the practitioner shall:… (c) Evaluate whether the criteria exhibit the following characteristics: (i) Relevance; (ii) Completeness...
106 [A323]	Obtain an understanding of the sustainability matters and the sustainability information, including the characteristics of events or conditions that could give rise to material misstatement of the disclosures.
107 [A330–A331]	Determine whether the applicable criteria are suitable for the engagement circumstances, including that they exhibit the characteristics in paragraph 78.
117 [A382–A384]	Obtain an understanding of the entity's information system and communication relevant to the sustainability matters and the preparation of the sustainability information, including: (a) The entity's process to identify sustainability information to be reported....

Requirement [Application Material] Paragraph Number	Relevant extract of the requirement wording The practitioner shall…
118 [A386]	Evaluate whether the entity's information system appropriately supports the preparation of the sustainability information in accordance with the applicable criteria.
121 [A402]	Based on the practitioner's understanding of the components of the entity's system of internal control, the practitioner shall consider whether one or more control deficiencies have been identified.
126L/R	Design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement, whether due to fraud or error, at the disclosure level/ assertion level for the disclosures.
153 [A472–A473]	Accumulate misstatements identified during the engagement, other than those that are clearly trivial.
156	Communicate to management, on a timely basis, all misstatements accumulated during the assurance engagement, and shall request management to correct those misstatements.
160 [A491]	Determine whether uncorrected misstatements are material, individually or in the aggregate. In making this determination, the practitioner shall consider the size and nature of the misstatements, and the particular circumstances of their occurrence.
181 [A527]	Form a conclusion about whether the sustainability information is free from material misstatement, whether due to fraud or error...
203	Express a modified conclusion ... when, in the practitioner's professional judgement, a scope limitation exists, and the effect of the matter could be material ... (or) ... the sustainability information is materially misstated.

[NZ] Appendix 3

(Ref: Para. A538)

Illustrations of Assurance Reports on Sustainability Information

- Illustration 1: Unmodified Reasonable Assurance Report on Sustainability Information of a FMC reporting entity considered to have a higher level of public accountability Prepared in Accordance with Fair Presentation Criteria
- Illustration 2: Unmodified Limited Assurance Report on Sustainability Information of an Entity Other than a FMC reporting entity considered to have a higher level of public accountability Prepared in Accordance with Compliance Criteria
- Illustration 3: Unmodified Combined Reasonable and Limited Assurance Report on Sustainability Information for an Entity Other than a FMC reporting entity considered to have a higher level of public accountability Prepared in Accordance with Compliance Criteria
- Illustration 4: Modified Limited Assurance Report on Sustainability Information of an Entity Other than a FMC reporting entity considered to have a higher level of public accountability Prepared in Accordance with Compliance Criteria

Illustration 1 – Unmodified Reasonable Assurance Report on Sustainability Information of a FMC reporting entity considered to have a higher level of public accountability Prepared in Accordance with Fair Presentation Criteria

For purposes of this illustrative assurance report, the following circumstances are assumed:

- A reasonable assurance engagement relating to the entirety of the Sustainability Report of ABC Company (the Company), a FMC reporting entity considered to have a higher level of public accountability, for the year ended December 31, 20X1 (the Sustainability Information).
- The Sustainability Information is prepared by management of the Company in accordance with fair presentation criteria (Sustainability Reporting Framework Version x.1).
- The Sustainability Information includes comparative information that is not referred to in the practitioner's conclusion. The comparative information was subject to a reasonable assurance engagement by the same practitioner in the prior period and the practitioner's conclusion was unmodified.
- Management of the Company is the engaging party.
- Those charged with governance are responsible for oversight of the Company's sustainability reporting process.
- The terms of the assurance engagement reflect the description of management's responsibility for the Sustainability Information in ISSA (NZ) 5000.
- The practitioner has concluded that an unmodified (i.e., "clean") opinion is appropriate based on the evidence obtained.
- The relevant ethical requirements that apply to the assurance engagement comprise the Professional and Ethical Standard 1- together with other ethical requirements relating to assurance engagements in New Zealand, and the assurance report refers to both. Professional and Ethical Standard 1 and the ethical requirements relating to the assurance engagement in the jurisdiction include independence requirements that are applicable to sustainability assurance engagements of public interest entities. They also require the practitioner to publicly disclose that the independence requirements applicable to sustainability assurance engagements of public interest entities were applied.
- The firm of which the practitioner is a member applies Professional and Ethical Standard 3.
- The Sustainability Information and the practitioner's report thereon have been included in the Company's Annual Report. The practitioner has obtained the Annual Report prior to the date of the assurance report and

has not identified a material misstatement of the other information in the Annual Report.

- In addition to the reasonable assurance engagement on the Sustainability Information, the practitioner has other reporting responsibilities required under local law.

The following report is for illustrative purposes only and is not intended to be exhaustive or applicable to all situations. The assurance report needs to be tailored to the engagement circumstances.

INDEPENDENT PRACTITIONER'S REASONABLE ASSURANCE REPORT ON ABC'S SUSTAINABILITY INFORMATION

To the Management of ABC Company [or Other Appropriate Addressee]

Reasonable Assurance Report on the Sustainability Information[9]

Reasonable Assurance Opinion

We have conducted a reasonable assurance engagement on the Sustainability Report of ABC Company (the "Company") for the year ended December 31, 20X1 (the "Sustainability Information").

In our opinion, the accompanying Sustainability Information is fairly presented, in all material respects, in accordance with the Sustainability Reporting Framework Version x.1.

Basis for Opinion

We conducted our reasonable assurance engagement in accordance with International Standard on Sustainability Assurance (New Zealand) 5000, *General Requirements for Sustainability Assurance Engagements* (ISSA (NZ) 5000), issued by the New Zealand Auditing and Assurance Standards Board.

Our responsibilities under this standard are further described in the *Practitioner's Responsibilities* section of our report.

We are independent of the Company in accordance with the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, as applicable to sustainability assurance engagements of public interest entities, together with the ethical requirements that are relevant to assurance engagements of public interest entities in [*title/identification of requirements, name of appropriate authority in New Zealand*]. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the Professional and Ethical Standard 1.

Our firm applies Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Other than in our capacity as practitioner we have no relationship with, or interests in, the Company.

[or Our firm carried out other assignments for the Company in the area of […]. In addition to this, principals and employees of our firm deal with the Company on normal terms within the ordinary course of the activities of the Company. The firm has no other relationship with, or interests in, the Company.]

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[9] The sub-title "Reasonable Assurance Report on the Sustainability Information" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Emphasis of Matter[10]

We draw attention to [identify the specific disclosure in the Sustainability Information], which describes […]. Our opinion is not modified in respect of this matter.

Other Information[11]

Management of the Company is responsible for the other information. The other information comprises the [information included in the Company's Annual report],[12] but does not include the Sustainability Information and our assurance report thereon.

Our opinion on the Sustainability Information does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our assurance engagement on the Sustainability Information, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Sustainability Information or our knowledge obtained in the assurance engagement, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities for the Sustainability Information

Management of the Company is responsible for[13]:

- The preparation and fair presentation of the Sustainability Information in accordance with the Sustainability Reporting Framework Version x.1.
- Designing, implementing and maintaining such internal control that management determines is necessary to enable the preparation of the Sustainability Information, in accordance with the Sustainability Reporting Framework Version x.1, that is free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Company's sustainability reporting process.

Inherent Limitations in Preparing the Sustainability Information[14]

As discussed in *[identify the specific disclosure in the Sustainability Information]*, *[provide a specific description of any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria]*.

Practitioner's Responsibilities

Our objectives are to plan and perform the assurance engagement to obtain reasonable assurance about whether the Sustainability Information is free from material misstatement, whether due to fraud or error, and to issue an assurance report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Sustainability Information.

As part of a reasonable assurance engagement in accordance with ISSA (NZ) 5000, we exercise professional judgement and maintain professional scepticism throughout the engagement. We also:

---

10 Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 199.

11 Another appropriate heading may be used, such as "Information Other than the Sustainability Information and Reasonable Assurance Report Thereon."

12 A more specific description of the other information, such as "the financial statements and notes thereto and chairman's statement," may be used to identify the other information.

13 The term management may need to be replaced by another term that is appropriate in the context of the legal framework for the entity.

14 Include paragraph if relevant to the engagement circumstances – see paragraph 190(g).

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[15]
- Design and perform procedures responsive to the assessed risks of material misstatement at the assertions level for the disclosures. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Report on Other Legal and Regulatory Requirements

[*The form and content of this section of the assurance report will vary depending on the nature of the practitioner's other reporting responsibilities. The matters addressed by other law, regulation or national standards (referred to as "other reporting responsibilities") are addressed within this section unless the other reporting responsibilities address the same report elements as those presented in accordance with the reporting responsibilities required by ISSA (NZ) 5000 as part of the Reasonable Assurance Report on the Sustainability Information section. The reporting of other reporting responsibilities that address the same report elements as those required by this ISSA (NZ) may be combined (i.e., included in the Reasonable Assurance Report on the Sustainability Information section under the appropriate subheadings) provided that the wording in the assurance report clearly differentiates the other reporting responsibilities from the reporting that is required by ISSA (NZ) 5000, when such a difference exists*.]

The engagement leader on the assurance engagement resulting in this independent practitioner's assurance report is [*name*].

[*Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate for the particular jurisdiction*]

[*Practitioner's address*]

[*Date of the assurance report*]

[15] Remove the words "but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control " if the reasonable assurance engagement includes an opinion on the effectiveness of internal control.

Illustration 2 – Unmodified Limited Assurance Report on Sustainability Information of an Entity Other than a FMC reporting entity considered to have a higher level of public accountability Prepared in Accordance with Compliance Criteria

For purposes of this illustrative assurance report, the following circumstances are assumed:

- A limited assurance engagement relating to the entirety of the Sustainability Report of ABC Company (the Company), an entity other than a FMC reporting entity considered to have a higher level of public accountability, for the year ended December 31, 20X1, as required by law or regulation (the Sustainability Information).
- The Sustainability Information is presented in a stand-alone document (i.e., the entity's Sustainability Report).
- The Sustainability Information is prepared by management of the Company in accordance with compliance criteria (XYZ Law of Jurisdiction X).
- The Sustainability Information includes comparative information that is not referred to in the practitioner's conclusion. The comparative information was subject to a limited assurance engagement by the same practitioner in the prior period and the practitioner's conclusion was unmodified.
- Management of the Company is the engaging party.
- The terms of the assurance engagement reflect the description of management's responsibility for the Sustainability Information in ISSA (NZ) 5000.
- The practitioner has concluded that an unmodified (i.e., "clean") conclusion is appropriate based on the evidence obtained.
- The relevant ethical requirements that apply to the assurance engagement comprise Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, together with the ethical requirements relating to assurance engagements in New Zealand, and the assurance report refers to both.
- The firm of which the practitioner is a member applies Professional and Ethical Standard 3.
- There is no other information because the Sustainability Information is presented in a stand-alone document**.**

The following report is for illustrative purposes only and is not intended to be exhaustive or applicable to all situations. The assurance report needs to be tailored to the engagement circumstances.

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT ON ABC'S SUSTAINABILITY INFORMATION

To the Management of ABC Company [or Other Appropriate Addressee]

Limited Assurance Conclusion

We have conducted a limited assurance engagement on the Sustainability Report of ABC Company (the "Company") for the year ended December 31, 20X1 (the "Sustainability Information").

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the accompanying Sustainability Information is not prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Basis for Conclusion

We conducted our limited assurance engagement in accordance with International Standard on Sustainability Assurance (New Zealand) 5000, *General Requirements for Sustainability Assurance Engagements (ISSA (NZ) 5000),* issued by the New Zealand Auditing and Assurance Standards Board.

The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a

reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our responsibilities under this standard are further described in the *Practitioner's Responsibilities* section of our report.

We are independent of the Company in accordance with the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, together with the ethical requirements that are relevant to our assurance engagement of the Sustainability Information in [*title/identification of requirements, name of appropriate authority in New Zealand*], and we have fulfilled our other ethical responsibilities in accordance with these requirements and Professional and Ethical Standard 1.

Our firm applies Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements,* which requires the firm to design, implement and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Other than in our capacity as practitioner we have no relationship with, or interests in, the Company.

[or Our firm carried out other assignments for the Company in the area of […]. In addition to this, principals and employees of our firm deal with the Company on normal terms within the ordinary course of the activities of the Company. The firm has no other relationship with, or interests in, the Company.]

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Emphasis of Matter[16]

We draw attention to [identify the specific disclosure in the Sustainability Information], which describes […]. Our conclusion is not modified in respect of this matter.

Responsibilities for the Sustainability Information

Management of the Company is responsible for[17]:

- The preparation of the Sustainability Information in accordance with XYZ Law of Jurisdiction X.
- Designing, implementing and maintaining such internal control that management determines is necessary to enable the preparation of the Sustainability Information, in accordance with XYZ Law of Jurisdiction X that is free from material misstatement, whether due to fraud or error.

Inherent Limitations in Preparing the Sustainability Information[18]

As discussed in *[identify the specific disclosure in the Sustainability Information]*, *[provide a specific description of any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria]*.

Practitioner's Responsibilities

Our objectives are to plan and perform the assurance engagement to obtain limited assurance about whether the Sustainability Information is free from material misstatement, whether due to fraud or error, and to issue a limited assurance report that includes our conclusion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Sustainability Information.

---

16 Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 199.

17 The term management may need to be replaced by another term that is appropriate in the context of the legal framework for the entity.

18 Include paragraph if relevant to the engagement circumstances – see paragraph 190(g).

As part of a limited assurance engagement in accordance with ISSA (NZ) 5000, we exercise professional judgement and maintain professional scepticism throughout the engagement. We also:

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatements, whether due to fraud or error, at the disclosure level but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control.[19]
- Design and perform procedures responsive to assessed risks of material misstatement at the disclosures level. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Summary of the Work Performed

A limited assurance engagement involves performing procedures to obtain evidence about the Sustainability Information. The nature, timing and extent of procedures selected depend on professional judgement, including the assessed risks of material misstatement at the disclosures level, whether due to fraud or error.

In conducting our limited assurance engagement, we:

[*Insert a summary of the nature and extent of procedures performed that, in the practitioner's judgement, provides additional information that may be relevant to the users' understanding of the work performed to support the practitioner's conclusion and the level of assurance obtained.*][20]

- […]

[*Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate for the particular jurisdiction*]

[*Practitioner's address*]

[*Date of the limited assurance report*]

[19] Remove "but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control " if the limited assurance engagement includes a conclusion on the effectiveness of internal control.

[20] The procedures are to be summarized but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that those procedures were agreed upon by the assurance practitioner with management and in most cases will not detail the entire work plan.

Illustration 3 – Unmodified Combined Reasonable and Limited Assurance Report on Sustainability Information for an Entity Other than a FMC reporting entity considered to have a higher level of public accountability Prepared in Accordance with Compliance Criteria, comprising:

a) Reasonable Assurance Opinion on the selected disclosures, [identified by …],[21] from the Sustainability Report ("Information RA")

b) Limited Assurance Conclusion on the selected disclosures, [identified by …],[22] from the Sustainability Report ("Information LA")

For purposes of this illustrative assurance report, the following circumstances are assumed:

- A reasonable assurance engagement relating to Information RA and a limited assurance engagement relating to Information LA of the Sustainability Report of ABC Company (the Company), an entity other than a FMC reporting entity considered to have a higher level of public accountability, for the year ended December 31, 20X1, as required by law or regulation (the Sustainability Report).
- The Sustainability Report represents the sustainability information reported by the Company and Information RA and Information LA represent the sustainability information subject to the assurance engagement.
- The Sustainability Report is prepared by management of the Company in accordance with compliance criteria (XYZ Law of Jurisdiction X).
- The Sustainability Report includes comparative information that is not referred to in the practitioner's conclusion. With respect to the comparative information: comparative Information RA was subject to a reasonable assurance engagement, and comparative Information LA was subject to a limited assurance engagement, in the prior period, and the practitioner's respective conclusions were unmodified.
- Management of the Company is the engaging party.
- The terms of the assurance engagement accurately reflect the description of management's responsibility for the Sustainability Information in ISSA (NZ) 5000.
- The assurance practitioner has concluded that, based on the evidence obtained, an unmodified (i.e., "clean") reasonable assurance opinion and limited assurance conclusion are appropriate with respect to Information RA and Information LA, respectively.
- The relevant ethical requirements that apply to the assurance engagement comprise Professional and Ethical Standard 1 together with other ethical requirements relating to assurance engagements in New Zealand, and the assurance report refers to both.
- The firm of which the practitioner is a member applies Professional and Ethical Standard 3.
- Information LA and Information RA, and the practitioner's report thereon, have been included in the Company's Annual Report. The practitioner has obtained the Annual Report prior to the date of the assurance report and has not identified a material misstatement of the other information in the Annual Report.

The following report is for illustrative purposes only and is not intended to be exhaustive or applicable to all situations. The assurance report needs to be tailored to the engagement circumstances.

INDEPENDENT PRACTITIONER'S REASONABLE AND LIMITED ASSURANCE REPORT ON ABC'S SUSTAINABILITY INFORMATION

---

[21] Provide a specific identification and location of the information that is subject to a reasonable assurance opinion, which should be distinct from the information subject to a limited assurance conclusion (e.g. by tagging the specific disclosures in the Sustainability Information, Title of Section of the Sustainability Information, an Appendix to Assurance Report, etc.).

[22] Provide a specific identification and location of the information that is subject to a limited assurance conclusion, which should be distinct from the information subject to a reasonable assurance conclusion (e.g. by tagging the specific disclosures in the Sustainability Information, Title of Section of the Sustainability Information, an Appendix to Assurance Report, etc.).

To the Management of ABC Company [or Other Appropriate Addressee]

Reasonable Assurance Opinion

We have conducted a reasonable assurance engagement on the selected disclosures, [identified by …],[23] of the Sustainability Report of ABC Company (the "Company") for the year ended December 31, 20X1 ("Information RA").

In our opinion, the Information RA of the accompanying Sustainability Report is prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Limited Assurance Conclusion

We have conducted a limited assurance engagement on the selected disclosures, [identified by …],[24] included in the Sustainability Report of the Company for the year ended December 31, 20X1 ("Information LA").

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Information LA of the accompanying Sustainability Report is not prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Basis for Reasonable Assurance Opinion and Limited Assurance Conclusion

We conducted our engagement in accordance with International Standard on Sustainability Assurance (New Zealand) 5000 *General Requirements for Sustainability Assurance Engagements* (ISSA (NZ) 5000), issued by the New Zealand Auditing and Assurance Standards Board.

The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our responsibilities under this standard are further described in the *Practitioner's Responsibilities* section of our report.

We are independent of the Company in accordance with the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, together with the ethical requirements that are relevant to our assurance engagement of the Information RA and Information LA in [title/identification of requirements, name of appropriate authority in New Zealand], and we have fulfilled our other responsibilities in accordance with these requirements and the Professional and Ethical Standard 1.

Our firm applies Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Other than in our capacity as practitioner we have no relationship with, or interests in, the Company.

[or Our firm carried out other assignments for the Company in the area of […]. In addition to this, principals and employees of our firm deal with the Company on normal terms within the ordinary course of the activities of the Company. The firm has no other relationship with, or interests in, the Company.]

---

[23] Provide a specific identification and location of the information that is subject to a reasonable assurance opinion, which should be distinct from the information subject to a limited assurance conclusion (e.g. by tagging the specific disclosures in the Sustainability Information, Title of Section of the Sustainability Information, an Appendix to Assurance Report, etc.).

[24] Provide a specific identification and location of the information that is subject to a limited assurance conclusion, which should be distinct from the information subject to a reasonable assurance conclusion (e.g. by tagging the specific disclosures in the Sustainability Information, Title of Section of the Sustainability Information, an Appendix to Assurance Report, etc.).

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our reasonable assurance opinion and limited assurance conclusion.

Emphasis of Matter[25]

We draw attention to [identify the specific disclosure in the Sustainability Report] from the Information LA of the Sustainability Report, which describes […]. Our limited assurance conclusion is not modified in respect of this matter.

Other Information[26]

Management of the Company is responsible for the other information. The other information comprises the [information included in the Company's Annual Report],[27] but does not include the Information RA and Information LA subject to this engagement and our assurance report thereon.

Our reasonable assurance opinion and limited assurance conclusion on Information RA and Information LA, respectively, do not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our limited and reasonable assurance engagements on the Information RA and Information LA, respectively, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Information RA and Information LA, respectively, or our knowledge obtained in the assurance engagement, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities for the Sustainability Information

Management of the Company is responsible for[28]:

- The preparation of the Information RA and Information LA in accordance with XYZ Law of Jurisdiction X.
- Designing, implementing and maintaining such internal control that management determines is necessary to enable the preparation of the Information RA and Information LA, in accordance with XYZ Law of Jurisdiction X, that is free from material misstatement, whether due to fraud or error.

Inherent Limitations in Preparing the Sustainability Information[29]

As discussed in *[identify the specific disclosure in the Sustainability Report]*, *[provide a specific description of any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria]*.

Practitioner's Responsibilities

Our objectives are to:

(a) Plan and perform the assurance engagement to obtain reasonable assurance about whether the Information RA is free from material misstatement, whether due to fraud or error, and to issue an assurance report that includes our opinion.

(b) Plan and perform the assurance engagement to obtain limited assurance about whether the Information LA is free from material misstatement, whether due to fraud or error and to issue an assurance report that includes our conclusion.

---

25 Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 199.

26 Another appropriate heading may be used, such as "Information Other than the Sustainability Information and Reasonable and Limited Assurance Report Thereon".

27 A more specific description of the other information, such as "the financial statements and notes thereto and chairman's statement," may be used to identify the other information.

28 The term management may need to be replaced by another term that is appropriate in the context of the legal framework for the entity.

29 Include paragraph if relevant to the engagement circumstances – see paragraph 190(g).

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Information RA and Information LA.

As part of both limited and reasonable assurance engagements in accordance with ISSA (NZ) 5000, we exercise professional judgement and maintain professional scepticism throughout the engagement. We also:

(a) For a reasonable assurance engagement:

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[30]
- Design and perform procedures responsive to the assessed risks of material misstatement at the assertions level for the disclosures in the Information RA. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) For a limited assurance engagement:

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatements, whether due to fraud or error, at the disclosure level but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control.[31]
- Design and perform procedures responsive to assessed risks of material misstatement at the disclosures level in the Information LA. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Summary of the Work Performed for Limited Assurance Conclusion

A limited assurance engagement involves performing procedures to obtain evidence about the Information LA. The nature, timing and extent of procedures selected depend on professional judgement, including the assessed risks of material misstatement at the disclosures level, whether due to fraud or error, in the Information LA.

In conducting our limited assurance engagement, we:

[*Insert a summary of the nature and extent of procedures performed that, in the practitioner's judgement, provides additional information that may be relevant to the users' understanding of the work performed to support the practitioner's conclusion and the level of assurance obtained.*][32]

- […]

[*Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate for the particular jurisdiction*]

[*Practitioner's address*]

[*Date of the assurance report*]

---

30 Remove "but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control" if the reasonable assurance engagement includes an opinion on the effectiveness of internal control.

31 Remove "but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control" if the limited assurance engagement includes a conclusion on the effectiveness of internal control.

32 The procedures are to be summarized but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that those procedures were agreed upon by the assurance practitioner with management, and in most cases will not detail the entire work plan.

Illustration 4 – Modified Limited Assurance Report on Sustainability Information of an Entity Other than a FMC reporting entity considered to have a higher level of public accountability Prepared in Accordance with Compliance Criteria

For purposes of this illustrative assurance report, the following circumstances are assumed:

- A limited assurance engagement relating to the entirety of the Sustainability Report of ABC Company (the Company), an entity other than a FMC reporting entity considered to have a higher level of public accountability, for the year ended December 31, 20X1, as required by law or regulation (the Sustainability Information).
- The Sustainability Information is presented in a stand-alone document (i.e., the entity's Sustainability Report).
- The Sustainability Information is prepared by management of the Company in accordance with compliance criteria (XYZ Law of Jurisdiction X).
- The Sustainability Information includes comparative information that is not referred to in the practitioner's conclusion. The comparative information was subject to a limited assurance engagement by the same practitioner in the prior period and the practitioner's conclusion was unmodified.
- Management of the Company is the engaging party.
- The terms of the assurance engagement reflect the description of management's responsibility for the Sustainability Information in ISSA (NZ) 5000.
- The assurance practitioner has concluded that a modified conclusion is appropriate due to a limitation of scope arising from an inability to obtain sufficient appropriate evidence regarding an identified matter that the practitioner has determined is material but not pervasive.
- The relevant ethical requirements that apply to the assurance engagement comprise Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, together with the ethical requirements relating to assurance engagements in New Zealand, and the assurance report refers to both.
- The firm of which the practitioner is a member applies Professional and Ethical Standard 3.
- There is no other information because the Company's Sustainability Information is presented in a stand-alone document**.**

The following report is for illustrative purposes only and is not intended to be exhaustive or applicable to all situations. The assurance report needs to be tailored to the engagement circumstances.

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT ON ABC'S SUSTAINABILITY INFORMATION

To the Management of ABC Company [or Other Appropriate Addressee]

Qualified Limited Assurance Conclusion

We have conducted a limited assurance engagement on the Sustainability Report of ABC Company (the "Company") for the year ended December 31, 20X1 (the "Sustainability Information").

Based on the procedures we have performed and the evidence we have obtained, except for the possible effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the accompanying Sustainability Information is not prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Basis for Qualified Conclusion

The Company has disclosed […].[33] We were unable to obtain sufficient appropriate evidence about […] as at December 31, 20X1 because […].[34] Consequently, we were unable to determine whether any adjustments to […] were necessary.

We conducted our limited assurance engagement in accordance with International Standard on Sustainability Assurance (New Zealand) 5000, *General Requirements for Sustainability Assurance Engagements* (ISSA (NZ) 5000), issued by the New Zealand Auditing and Assurance Standards Board.

The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our responsibilities under this standard are further described in the *Practitioner's Responsibilities* section of our report.

We are independent of the Company in accordance with the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, together with the ethical requirements that are relevant to our assurance engagement of the Sustainability Information in [*title/identification of requirements, name of appropriate authority in New Zealand*], and we have fulfilled our other ethical responsibilities in accordance with these requirements and Professional and Ethical Standard 1.

Our firm applies Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Other than in our capacity as practitioner we have no relationship with, or interests in, the Company.

[or Our firm carried out other assignments for the Company in the area of […]. In addition to this, principals and employees of our firm deal with the Company on normal terms within the ordinary course of the activities of the Company. The firm has no other relationship with, or interests in, the Company.]

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified conclusion.

Emphasis of Matter[35]

We draw attention to [identify the specific disclosure in the Sustainability Information], which describes […]. Our conclusion is not modified in respect of this matter.

Responsibilities for the Sustainability Information

Management of the Company is responsible for[36]:

- The preparation of the Sustainability Information in accordance with XYZ Law of Jurisdiction X.
- Designing, implementing and maintaining such internal control that management determines is necessary to enable the preparation of the Sustainability Information, in accordance with XYZ Law of Jurisdiction X, that is free from material misstatement, whether due to fraud or error.

[33] Insert a description of the relevant disclosure.

[34] Provide a description of the matter giving rise to, and the reasons for, the qualified conclusion.

[35] Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 199.

[36] The term management may need to be replaced by another term that is appropriate in the context of the legal framework for the entity.

Inherent Limitations in Preparing the Sustainability Information[37]

As discussed in *[identify the specific disclosure in the Sustainability Information]*, *[provide a specific description of any significant inherent limitations associated with the measurement or evaluation of the sustainability matters against the applicable criteria]*.

Practitioner's Responsibilities

Our objectives are to plan and perform the assurance engagement to obtain limited assurance about whether the Sustainability Information is free from material misstatement, whether due to fraud or error, and to issue a limited assurance report that includes our conclusion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Sustainability Information.

As part of a limited assurance engagement in accordance with ISSA (NZ) 5000, we exercise professional judgement and maintain professional scepticism throughout the engagement. We also:

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatements, whether due to fraud or error, at the disclosure level but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control.[38]
- Design and perform procedures responsive to assessed risks of material misstatement at the disclosures level. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Summary of the Work Performed

A limited assurance engagement involves performing procedures to obtain evidence about the Sustainability Information. The nature, timing and extent of procedures selected depend on professional judgement, including the assessed risks of material misstatement at the disclosures level, whether due to fraud or error.

In conducting our limited assurance engagement, we:

[*Insert a summary of the nature and extent of procedures performed that, in the practitioner's judgement, provides additional information that may be relevant to the users' understanding of the work performed to support the practitioner's conclusion and the level of assurance obtained.*][39]

- […]

[*Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate for the particular jurisdiction*]

[*Practitioner's address*]

[*Date of the limited assurance report*]

---

37 Include paragraph if relevant to the engagement circumstances – see paragraph 190(g).

38 Remove "but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control" if the limited assurance engagement includes a conclusion on the effectiveness of internal control.

39 The procedures are to be summarized but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that those procedures were agreed upon by the assurance practitioner with management, and in most cases will not detail the entire work plan.

Schedule 1

Transitional, savings, and related provisions

Part 1 Provisions relating to this standard as made

There are no transitional, savings, or related provisions in this standard as made.

Made at Wellington on DATE

John Kensington

Chair

External Reporting Board

Explanatory and other information

These notes and other information are not part of the standard

Explanatory note

This standard is the International Standard on Sustainability Assurance (New Zealand) 5000 *General Requirements for Sustainability Assurance Engagements*.
This standard is the New Zealand equivalent of International Standard on Sustainability Assurance (ISSA 5000), *General Requirements for Sustainability Assurance Engagements* issued by the International Auditing and Assurance Standards Board. This standard applies to accounting periods that begin on or after 15 December 2026.

The standard was approved by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board.

Conformity with International Standards on Sustainability Assurance

This Standard conforms to International Standard on Sustainability Assurance (ISSA 5000), General Requirements for Sustainability Assurance Engagements issued by the International Auditing and Assurance Standards Board.

Paragraphs that have been amended or added to this ISSA (NZ) (and do not appear in the text of the equivalent ISSA) are identified with the prefix "NZ".

The following requirement is additional to ISSA 5000:

- In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both. (Ref: Para NZ7.1)

This ISSA (NZ) incorporates terminology and definitions used in New Zealand.

References to publicly traded entities have been broadened to refer to FMC reporting entities considered to have a higher level of public accountability in New Zealand.

Compliance with this ISSA (NZ) enables compliance with ISSA 5000.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Standard on Sustainability Assurance ASSA 5000, *General Requirements for Sustainability Assurance Engagements*.

ASSA 5000 conforms to ISSA 5000.

The following requirements are additional to ISSA 5000 and ISSA (NZ) 5000:

- Prohibition of the use of internal auditors to provide direct assistance in a sustainability assurance engagement. (Ref: Para. Aus 42.1 and Aus 42.2)

The equivalent requirements and related application and other explanatory material included in ISSA 5000 in respect of "relevant ethical requirements" or IESBA Code, have been replaced with references to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

Copyright

The Standard is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (IAASB). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any enquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at https://www.xrb.govt.nz/about-xrb/contact-us/

ISBN [to be added here]

History of Amendments

Table of instruments – ISSA (NZ) 5000

This table lists the instruments amending this standard.

Instrument	Date made	Application

Minimum Legislative Information

This Standard is secondary legislation published under the Legislation Act 2019.

Title	International Standard on Sustainability Assurance (New Zealand) (ISSA (NZ) 5000), *General Requirements for Sustainability Assurance Engagements*
Principal or amendment	Principal
Consolidated version	No
Empowering Act and provisions	Section 12(b) of the Financial Reporting Act 2013.
Replacement empowering Act and provision	
Maker name	External Reporting Board
Administering agency	External Reporting Board
Date made	12 December 2025
Publication date	18 December 2025
Notification date	18 December 2025
Commencement date	This standard takes effect on 15 January 2026.
End date	
Consolidation as at date	
Related instruments	

Note for the NZAuASB:
This draft standard has consolidated the various proposals that were exposed. I.e. it is the entire Code, and only some parts of the Code are new or are amended. To help you navigate the proposed text exposed on consultation of IESSA (NZ) and Revisions to the Code Addressing using the Work of an External Expert is in red within this standard.
In addition, any further changes made since exposure are in track changes.

From the current compiled PES 1, we have:
* updated the wording on the front cover in line with current secondary legislation drafting practice
* moved (and updated) the copyright page and history of amendments table to the explanatory notes section at the back of this standard.
* removed the Guide to the Code section, and propose adding this to an explanatory guide.
* incorporated the New Zealand Preface within in the explanatory note at the back of this standard.
* changed the contents page layout to enable users to click on a section heading to be taken to that part/section.
* updated the conformity statement
* added a table of minimum legislative information

This secondary legislation is administered by the External Reporting Board.
For more information please see:
Website: www.xrb.govt.nz
Contact phone: +64 4 550 2030
Contact address: Level 6/154 Featherston St, Wellington, 6011

There is an explanatory note at the end of this standard that sets out how and from when this standard operates.

Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

This Standard is made under section 12(b) of the Financial Reporting Act 2013 by the External Reporting Board after complying with section 22 of that Act.

CONTENTS

Page

TITLE **6**
COMMENCEMENT **6**
INTERPRETATION **6**
APPLICATION **6**
REVOCATION **7**
TRANSITIONAL, SAVINGS, AND RELATED PROVISIONS **7**
NEW ZEALAND SCOPE AND APPLICATION **8**
PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK **9**
SECTION 100 COMPLYING WITH THE CODE 10
SECTION 110 THE FUNDAMENTAL PRINCIPLES 12
SUBSECTION 111 – INTEGRITY *13*
SUBSECTION 112 – OBJECTIVITY *13*
SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE *14*
SUBSECTION 114 – CONFIDENTIALITY *14*
SUBSECTION 115 – PROFESSIONAL BEHAVIOUR *17*
SECTION 120 THE CONCEPTUAL FRAMEWORK 18
PART 2 – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM **27**
SECTION 200 APPLYING THE CONCEPTUAL FRAMEWORK – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM. 28
SECTION 210 CONFLICTS OF INTEREST 33

SECTION 220 PREPARATION AND PRESENTATION OF INFORMATION 36
SECTION 230 ACTING WITH SUFFICIENT EXPERTISE 42
SECTION 240 FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL OR NON-FINANCIAL REPORTING AND DECISION MAKING 43
SECTION 250 INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY 45
SECTION 260 RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS 50
SECTION 270 PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES 58
SECTION 280 TAX PLANNING ACTIVITIES 62
SECTION 290 USING THE WORK OF AN EXTERNAL EXPERT 63

PART 3 – APPLICATION OF THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK 71

SECTION 300 APPLYING THE CONCEPTUAL FRAMEWORK 72
SECTION 310 CONFLICTS OF INTEREST 79
SECTION 320 PROFESSIONAL APPOINTMENTS 84
SECTION 321 SECOND OPINIONS 88
SECTION 325 OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS 89
SECTION 330 FEES AND OTHER TYPES OF REMUNERATION 91
SECTION 340 INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY 93
SECTION 350 CUSTODY OF CLIENT ASSETS 98
SECTION 360 RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS 99
SECTION 380 TAX PLANNING SERVICES 113
SECTION 390 USING THE WORK OF AN EXTERNAL EXPERT 114

INTERNATIONAL INDEPENDENCE STANDARDS (NEW ZEALAND) (PARTS 4A AND 4B) 128

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS 128

SECTION 400 APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS 129
SECTION 405 GROUP AUDITS 145
SECTION 410 FEES 152
SECTION 411 COMPENSATION AND EVALUATION POLICIES 163
SECTION 420 GIFTS AND HOSPITALITY 164
SECTION 430 ACTUAL OR THREATENED LITIGATION 165
SECTION 510 FINANCIAL INTERESTS 166
SECTION 511 LOANS AND GUARANTEES 170
SECTION 520 BUSINESS RELATIONSHIPS 172
SECTION 521 FAMILY AND PERSONAL RELATIONSHIPS 174
SECTION 522 RECENT SERVICE WITH AN AUDIT CLIENT 177
SECTION 523 SERVING AS A DIRECTOR OR OFFICER OF AN AUDIT CLIENT 178

SECTION 524 EMPLOYMENT WITH AN AUDIT CLIENT 179
SECTION 525 TEMPORARY PERSONNEL ASSIGNMENTS 182
SECTION 540 LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT 183
SECTION 600 PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT 189
SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES 197
SUBSECTION 602 – ADMINISTRATIVE SERVICES 199
SUBSECTION 603 – VALUATION SERVICES 199
SUBSECTION 604 – TAX SERVICES 201
SUBSECTION 605 – INTERNAL AUDIT SERVICES 208
SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES 211
SUBSECTION 607 – LITIGATION SUPPORT SERVICES 213
SUBSECTION 608 – LEGAL SERVICES 215
SUBSECTION 609 – RECRUITING SERVICES 217
SUBSECTION 610 – CORPORATE FINANCE SERVICES 219
SECTION 800 REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS) 221
PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS ADDRESSED IN PART 5 224
SECTION 900 APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS WITHIN THE SCOPE OF THE INTERNATIONAL INDEPENDENCE STANDARDS (NEW ZEALAND) IN PART 5 225
SECTION 905 FEES 233
SECTION 906 GIFTS AND HOSPITALITY 237
SECTION 907 ACTUAL OR THREATENED LITIGATION 238
SECTION 910 FINANCIAL INTERESTS 239
SECTION 911 LOANS AND GUARANTEES 242
SECTION 920 BUSINESS RELATIONSHIPS 244
SECTION 921 FAMILY AND PERSONAL RELATIONSHIPS 246
SECTION 922 RECENT SERVICE WITH AN ASSURANCE CLIENT 249
SECTION 923 SERVING AS A DIRECTOR OR OFFICER OF AN ASSURANCE CLIENT 250
SECTION 924 EMPLOYMENT WITH AN ASSURANCE CLIENT 251
SECTION 940 LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT 253
SECTION 950 PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENT CLIENTS 255

SECTION 990 REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS) 259

PART 5 – INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) 261

SECTION 5100 COMPLYING WITH PART 5 263

SECTION 5110 THE FUNDAMENTAL PRINCIPLES 267

SUBSECTION 5111 – INTEGRITY 268

SUBSECTION 5112 – OBJECTIVITY 268

SUBSECTION 5113 – PROFESSIONAL COMPETENCE AND DUE CARE 269

SUBSECTION 5114 – CONFIDENTIALITY 269

SUBSECTION 5115 – PROFESSIONAL BEHAVIOUR 272

SECTION 5120 THE CONCEPTUAL FRAMEWORK 273

SECTION 5270 PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES 282

SECTION 5300 APPLYING THE CONCEPTUAL FRAMEWORK 285

SECTION 5310 CONFLICTS OF INTEREST 292

SECTION 5320 PROFESSIONAL APPOINTMENTS 296

SECTION 5325 OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS 301

SECTION 5330 FEES AND OTHER TYPES OF REMUNERATION 303

SECTION 5340 INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY 305

SECTION 5350 CUSTODY OF CLIENT ASSETS 310

SECTION 5360 RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS 311

SECTION 5380 TAX PLANNING SERVICES 325

SECTION 5390 USING THE WORK OF AN EXTERNAL EXPERT 335

SECTION 5400 APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS 349

SECTION 5405 GROUP SUSTAINABILITY ASSURANCE ENGAGEMENTS 365

SECTION 5406 ANOTHER PRACTITIONER WHOSE ASSURANCE WORK IS USED IN A SUSTAINABILITY ASSURANCE ENGAGEMENT 377

SECTION 5410 FEES 379

SECTION 5411 COMPENSATION AND EVALUATION POLICIES 391

SECTION 5420 GIFTS AND HOSPITALITY 392

SECTION 5430 ACTUAL OR THREATENED LITIGATION 393

SECTION 5510 FINANCIAL INTERESTS 394

SECTION 5511 LOANS AND GUARANTEES 399

SECTION 5520 BUSINESS RELATIONSHIPS 401

SECTION 5521 FAMILY AND PERSONAL RELATIONSHIPS 403

SECTION 5522 RECENT SERVICE WITH A SUSTAINABILITY ASSURANCE CLIENT 406

SECTION 5523 SERVING AS A DIRECTOR OR OFFICER OF A SUSTAINABILITY ASSURANCE CLIENT 407
SECTION 5524 EMPLOYMENT WITH A SUSTAINABILITY ASSURANCE CLIENT 408
SECTION 5525 TEMPORARY PERSONNEL ASSIGNMENTS 410
SECTION 5540 LONG ASSOCIATION OF PERSONNEL (INCLUDING LEADER ROTATION) WITH A SUSTAINABILITY ASSURANCE CLIENT 412
SECTION 5600 PROVISION OF NON-ASSURANCE SERVICES TO A SUSTAINABILITY ASSURANCE CLIENT 417
SUBSECTION 5601 – SUSTAINABILITY DATA AND INFORMATION SERVICES 426
SUBSECTION 5602 – ADMINISTRATIVE SERVICES 428
SUBSECTION 5603 – VALUATIONS AND ADVISORY SERVICES ON FORWARD-LOOKING INFORMATION 429
SUBSECTION 5604 – TAX SERVICES 431
SUBSECTION 5605 – INTERNAL AUDIT SERVICES 438
SUBSECTION 5606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES 441
SUBSECTION 5607 – LITIGATION SUPPORT SERVICES 443
SUBSECTION 5608 – LEGAL SERVICES 445
SUBSECTION 5609 – RECRUITING SERVICES 448
SUBSECTION 5610 – CORPORATE FINANCE SERVICES 449
GLOSSARY 452
SCHEDULE 1 472

Title

0.1 This is the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand).*

Commencement

0.2 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019 (see section 27 of the Financial Reporting Act 2013).

This note is not part of the standard.
This standard was published on [18 December 2025] and takes effect on [15 January 2026].

Interpretation

0.3 In this standard PES 1 means the Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand).*

Application

0.4 The accounting periods in relation to which this standard commences to apply are:

- for an **early adopter**, those accounting periods, following and including, the **early adoption accounting period**.

- for any assurance practitioner or firm, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

- ~~for the firm, with respect to Sections 5405 and 5406 related to assurance work performed at a value chain component, the first accounting periods that begin on or after 1 July 2028. For sustainability assurance engagements on sustainability information for accounting periods beginning prior to 1 July 2028 that involve assurance work performed at a value chain component:~~

  ~~(a) A group sustainability assurance firm or component practitioner that performs assurance work at a value chain component shall apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence in relation to such assurance work;~~

  ~~(b) If the group sustainability assurance firm intends to use the assurance work of another practitioner, the group sustainability assurance firm shall be satisfied that the other practitioner is independent, and in that regard may rely on a statement of independence in accordance with Part 4B or other professional requirements relating to independence; and~~

  ~~(c) The group sustainability assurance firm shall publicly disclose that independence provisions applicable to assurance work performed at value chain components under Part 5 (the IESSA (NZ)) have not been applied, pursuant to a deferred effective date for such provisions as specified in the IESSA (NZ).~~

0.4 In paragraph 0.3:

early adopter means an auditor, assurance practitioner or firm that applies this standard for an early adoption accounting period.

early adoption accounting period means the accounting period:

- that begins before the mandatory date but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and
- for which the early adopter:
  - first applies this standard for an audit engagement or an assurance engagement; and
  - discloses in the auditor's report or the assurance report for that accounting period that this standard has been applied for that period.

mandatory date means 15 December 2026.

Revocation

0.5 The standard Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued in December 2018 is revoked on the date this standard takes effect.

Transitional, savings, and related provisions

0.6 The transitional, savings, and related provisions (if any) set out in Schedule 1 have effect according to their terms.

NEW ZEALAND SCOPE AND APPLICATION

~~NZ1.1~~ ~~Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* ("the Code") is effective from 15 June 2019 and supersedes Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners,* issued by the XRB in January 2013. Early adoption of the Code is permitted.~~

NZ1.2 The Code is intended to apply to all those who perform assurance engagements, even if they are not part of the accountancy profession. The Code makes reference to the accountancy profession to establish a benchmark and is not intended to exclude assurance practitioners that are not part of the accountancy profession. Some professions may have requirements and guidance that differ from those contained in the Code. Assurance practitioners from other professions, including any person or organisation appointed or engaged to perform assurance engagements, need to be aware of these differences and comply with the more stringent requirements and guidance.

NZ1.3 The Code is not intended to detract from responsibilities which may be imposed by law or regulation.

NZ1.4 In applying the requirements outlined in the Code, assurance practitioners shall be guided not merely by the words, but also by the spirit of the Code.

[XRB] 2025/x

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

CONTENTS

Page

SECTION 100 COMPLYING WITH THE CODE 10
SECTION 110 THE FUNDAMENTAL PRINCIPLES 12
SUBSECTION 111 – INTEGRITY *13*
SUBSECTION 112 – OBJECTIVITY *13*
SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE *14*
SUBSECTION 114 – CONFIDENTIALITY *14*
SUBSECTION 115 – PROFESSIONAL BEHAVIOUR *17*
SECTION 120 THE CONCEPTUAL FRAMEWORK 18

SECTION 100 COMPLYING WITH THE CODE

Introduction

100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

100.2 Confidence in the accountancy profession is a reason why businesses, governments and other organisations involve professional accountants in a broad range of areas including financial, non-financial and corporate reporting, assurance and other professional activities. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:

(a) Adherence to ethical principles and professional standards;

(b) Use of business acumen;

(c) Application of expertise on technical and other matters; and

(d) Exercise of professional judgement.

The application of these skills and values enables accountants to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.

100.3 The Code sets out high quality standards of ethical behaviour expected of professional accountants for adoption by professional accountancy organisations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics (including independence) standards for professional accountants in particular sectors or jurisdictions and by firms in developing their ethics and independence policies.

100.4 The Code establishes five fundamental principles to be complied with by all professional accountants. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence. The Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that professional accountants may encounter, whether in business or in public practice.

Requirements and Application Material

100.5 A1 The requirements in the Code, designated with the letter "R," impose obligations.

100.5 A2 Application material, designated with the letter "A," provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help an assurance practitioner to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.

R100.6 An assurance practitioner shall comply with the Code.

100.6 A1 Upholding the fundamental principles and compliance with the specific requirements of the Code enable assurance practitioners to meet their responsibility to act in the public interest.

100.6 A2 Complying with the Code includes giving appropriate regard to the aim and intent of the specific requirements.

100.6 A3 Compliance with the requirements of the Code does not mean that assurance practitioners will have always met their responsibility to act in the public interest. There might be unusual or exceptional circumstances in which an assurance practitioner believes that complying with a requirement or requirements of the Code might not be in the public interest or would lead to a disproportionate outcome. In those circumstances, the assurance practitioner is encouraged to consult with an appropriate body such as a professional or regulatory body.

100.6 A4 In acting in the public interest, an assurance practitioner considers not only the preferences or requirements of an individual client or employing organisation, but also the interests of other stakeholders when performing professional activities.

R100.7 If there are circumstances where laws or regulations preclude an assurance practitioner from complying with certain parts of the Code, those laws and regulations prevail, and the assurance practitioner shall comply with all other parts of the Code.

100.7 A1 The principle of professional behaviour requires an assurance practitioner to comply with relevant laws and regulations.

Breaches of the Code

R100.8 Paragraphs R400.80 to R400.89, 405.22 A1 to R405.29, R900.50 to R900.55, R5400.80 to R5400.89 and 5405.22 A1 to R5405.29 address a breach of *International Independence Standards (New Zealand)*. An assurance practitioner who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the assurance practitioner's ability to comply with the fundamental principles. The assurance practitioner shall also:

(a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and

(b) Determine whether to report the breach to the relevant parties.

100.8 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

SECTION 110 THE FUNDAMENTAL PRINCIPLES

General

110.1 A1 There are five fundamental principles of ethics for assurance practitioners:

(a) Integrity – to be straightforward and honest in all professional and business relationships.

(b) Objectivity – to exercise professional or business judgements without being compromised by:

(i) Bias;

(ii) Conflict of interest; or

(iii) Undue influence of, or undue reliance on, individuals, organisations, technology or other factors.

(c) Professional Competence and Due Care – to:

(i) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent assurance services, based on current standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board and relevant legislation; and

(ii) Act diligently and in accordance with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

(d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.

(e) Professional Behaviour – to:

(i) Comply with relevant laws and regulations;

(ii) Behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships; and

(iii) Avoid any conduct that the assurance practitioner knows or should know might discredit the profession.

R110.2 An assurance practitioner shall comply with each of the fundamental principles.

110.2 A1 The fundamental principles of ethics establish the standard of behaviour expected of an assurance practitioner. The conceptual framework establishes the approach which an assurance practitioner is required to apply in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

110.2 A2 An assurance practitioner might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the assurance practitioner might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm.
- Those charged with governance.
- A professional body.

- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the assurance practitioner from the responsibility to exercise professional judgement to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

110.2 A3 The assurance practitioner is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

SUBSECTION 111 – INTEGRITY

R111.1 An assurance practitioner shall comply with the principle of integrity, which requires an assurance practitioner to be straightforward and honest in all professional and business relationships.

111.1 A1 Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organisational consequences.

111.1 A2 Acting appropriately would involve:

(a) Standing one's ground when confronted by dilemmas and difficult situations; or

(b) Challenging others as and when circumstances warrant,

in a manner appropriate to the circumstances.

R111.2 An assurance practitioner shall not knowingly be associated with reports, returns, communications or other information where the assurance practitioner believes that the information:

(a) Contains a materially false or misleading statement;

(b) Contains statements or information provided recklessly; or

(c) Omits or obscures required information where such omission or obscurity would be misleading.

111.2 A1 If an assurance practitioner provides a modified report in respect of such a report, return, communication or other information, the assurance practitioner is not in breach of paragraph R111.2.

R111.3 When an assurance practitioner becomes aware of having been associated with information described in paragraph R111.2, the assurance practitioner shall take steps to be disassociated from that information.

SUBSECTION 112 – OBJECTIVITY

R112.1 An assurance practitioner shall comply with the principle of objectivity, which requires an assurance practitioner to exercise professional or business judgement without being compromised by:

(a) Bias;

(b) Conflict of interest; or

(c) Undue influence, or undue reliance on, individuals, organisations, technology or other factors.

R112.2 An assurance practitioner shall not undertake a professional activity if a circumstance or relationship unduly influences the assurance practitioner's professional judgement regarding that activity.

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

R113.1 An assurance practitioner shall comply with the principle of professional competence and due care, which requires an assurance practitioner to:

(a) Attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent assurance service, based on standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board and relevant legislation; and

(b) Act diligently and in accordance with the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

113.1 A1 Serving clients with professional competence involves the exercise of sound judgement in applying professional knowledge and skills.

113.1 A2 The knowledge and skills necessary for a professional activity vary depending on the nature of the activity being undertaken. For example, in addition to the application of any technical knowledge relevant to the professional activity, interpersonal, communication and organisational skills facilitate the assurance practitioner's interaction with entities and individuals with whom the assurance practitioner interacts.

113.1 A3 Maintaining professional competence requires an assurance practitioner to have a continuing awareness and understanding of technical, professional, business and technology-related developments relevant to the professional activities undertaken by the assurance practitioner. Continuing professional development enables an assurance practitioner to develop and maintain the capabilities to perform competently within the assurance environment.

113.1 A4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

R113.2 In complying with the principle of professional competence and due care, an assurance practitioner shall take reasonable steps to ensure that those working in a professional capacity under the assurance practitioner's authority have appropriate training and supervision.

R113.3 Where appropriate, an assurance practitioner shall make clients, or other users of the assurance practitioner's professional activities, aware of the limitations inherent in the activities and explain the implications of those limitations.

SUBSECTION 114 – CONFIDENTIALITY

R114.1 An assurance practitioner shall comply with the principle of confidentiality, which requires an assurance practitioner to respect the confidentiality of information acquired in the course of professional and business relationships. An assurance practitioner shall:

(a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;

(b) Maintain confidentiality of information within the firm;

(c) Maintain confidentiality of information disclosed by a prospective client; and

(d) Take reasonable steps to ensure that personnel under the assurance practitioner's control, and individuals from whom advice and assistance are obtained, comply with the assurance practitioner's duty of confidentiality.

114.1 A1 Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the assurance practitioner taking appropriate action to protect the confidentiality of such information in the course of its collection, use, transfer, storage or retention, dissemination and lawful destruction.

R114.2 Subject to paragraph R114.3, an assurance practitioner shall not:

(a) Disclose confidential information acquired in the course of professional and business relationships;

(b) Use confidential information acquired in the course of professional and business relationships for the advantage of the assurance practitioner, the firm or a third party;

(c) Use or disclose any confidential information, either acquired or received in the course of a professional or business relationship, after that relationship has ended; and

(d) Use or disclose information in respect of which the duty of confidentiality applies notwithstanding that that information has become publicly available, whether properly or improperly.

R114.3 As an exception to paragraph R114.2, an assurance practitioner may disclose or use confidential information where:

(a) There is a legal or professional duty or right to do so; or

(b) This is authorised by the client or any person with the authority to permit disclosure or use of the confidential information and this is not prohibited by law or regulation.

114.3 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the assurance practitioner's client to the assurance practitioner in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where assurance practitioners might be required or have the duty or right to disclose confidential information:

(a) Disclosure is required by law or regulation, for example:

(i) Production of documents or other provision of evidence in the course of legal proceedings; or

(ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and

(b) There is a professional duty or right to disclose or use, when not prohibited by law or regulation:

(i) To comply with the quality review of a professional body;

(ii) To respond to an enquiry or investigation by a professional or regulatory body;

(iii) To protect the professional interests of an assurance practitioner in legal proceedings; or

(iv) To comply with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

NZ114.3 A1.1 The circumstances in paragraph 114.3 A1 do not take into account New Zealand legal and regulatory requirements. An assurance practitioner considering disclosing or using confidential information about a client without their consent is advised to first obtain legal advice.

114.3 A2 In deciding whether to disclose or use confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client authorises the disclosure or use of information by the assurance practitioner.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose or use, the information include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed means of communicating the information.
- Whether the parties to whom the information is to be provided or access is to be granted are appropriate recipients.
- Any applicable law or regulation (including those governing privacy) in a jurisdiction where disclosure might take place and, if different, the jurisdiction where the confidential information originates.

114.3 A3 The circumstances in which a firm seeks authorisation to use or disclose confidential information, include where the information is to be used for training purposes, in the development of products or technology, in research or as source material for industry or other benchmarking data or studies. Such authorisation might be general in its application (for example, in relation to use of the information for internal training purposes or quality enhancement initiatives). When obtaining the authorisation of the individual or entity that provided such information for use in specific circumstances, relevant considerations to be communicated (preferably in writing) might include:

- The nature of the information to be used or disclosed.
- The purpose for which the information is to be used or disclosed (for example, technology development, research or benchmarking data or studies).
- The individual or entity who will undertake the activity for which the information is to be used or disclosed.
- Whether the identity of the individual or entity that provided such information or any individuals or entities to which such information relates will be identifiable from the output of the activity for which the information is to be used or disclosed.

R114.4 An assurance practitioner shall continue to comply with the principle of confidentiality even after the end of the relationship between the assurance practitioner and a client. When acquiring a new client, the assurance practitioner is entitled to use prior experience

but shall not use or disclose any confidential information acquired or received in the course of a professional or business relationship.

SUBSECTION 115 – PROFESSIONAL BEHAVIOUR

R115.1 An assurance practitioner shall comply with the principle of professional behaviour, which requires an assurance practitioner to:

- Comply with relevant laws and regulations;
- Behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships; and
- Avoid any conduct that the assurance practitioner knows or should know might discredit the profession.

An assurance practitioner shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

115.1 A1 Conduct that might discredit the accountancy profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

R115.2 When undertaking marketing or promotional activities, an assurance practitioner shall not bring the accountancy profession into disrepute. An assurance practitioner shall be honest and truthful and shall not make:

(a) Exaggerated claims for the services offered by, or the qualifications or experience of, the assurance practitioner; or

(b) Disparaging references or unsubstantiated comparisons to the work of others.

115.2 A1 If an assurance practitioner is in doubt about whether a form of advertising or marketing is appropriate, the assurance practitioner is encouraged to consult with the relevant professional body.

SECTION 120 THE CONCEPTUAL FRAMEWORK

Introduction

120.1 The circumstances in which assurance practitioners operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist assurance practitioners in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter assurance practitioners from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.

120.2 The conceptual framework specifies an approach for an assurance practitioner to:

(a) Identify threats to compliance with the fundamental principles;

(b) Evaluate the threats identified; and

(c) Address the threats by eliminating or reducing them to an acceptable level.

Requirements and Application Material

General

R120.3 The assurance practitioner shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.

120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:

(a) Part 2 – *Assurance Practitioners Performing Professional Activities Pursuant to Their Relationship with the Firm;*

(b) Part 3 – *Application of the Code, Fundamental Principles and Conceptual Framework*;

(c) *International Independence Standards (New Zealand)*, as follows:

(i) Part 4A – *Independence for Audit and Review Engagements*; and

(ii) Part 4B – *Independence for Assurance Engagements Other than Audit Engagements, Review Engagements and Sustainability Assurance Engagements Addressed in Part 5; and*

(d) Part 5 – *International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand).*

R120.4 When dealing with an ethics issue the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing professional activities pursuant to the assurance practitioner's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

R120.5 When applying the conceptual framework, the assurance practitioner shall:

(a) Have an enquiring mind;

(b) Exercise professional judgement; and

(c) Use the reasonable and informed third party test described in paragraph 120.5 A9.

Having an Enquiring Mind

120.5 A1 An enquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an enquiring mind involves:

- Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and
- Being open and alert to a need for further investigation or other action.

120.5 A2 When considering the source, relevance and sufficiency of information obtained, the assurance practitioner might consider, among other matters, whether:

- New information has emerged or there have been changes in facts and circumstances.
- The information or its source might be influenced by bias or self-interest.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the assurance practitioner.
- There is an inconsistency between the known facts and circumstances and the assurance practitioner's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

120.5 A3 Paragraph R120.5 requires all assurance practitioners to have an enquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all assurance practitioners regardless of the professional activity undertaken. Under auditing, review and other assurance standards, including those issued by the NZAuASB, assurance practitioners are also required to exercise professional scepticism, which includes a critical assessment of evidence.

Exercising Professional Judgement

120.5 A4 Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.

120.5 A5 Professional judgement is required when the assurance practitioner applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the assurance practitioner might consider matters such as whether:

- The assurance practitioner's expertise is sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise.
- The assurance practitioner's own preconception or bias might be affecting the assurance practitioner's exercise of professional judgement.

120.5 A6 The circumstances in which assurance practitioners carry out professional activities and the factors involved vary considerably in their range and complexity. The professional

judgement exercised by assurance practitioners might need to take into account the complexity arising from the compounding effect of the interaction between, and changes in, elements of the facts and circumstances that are uncertain and variables and assumptions that are interconnected or interdependent.

120.5 A7 Managing complexity involves:

- Making the firm and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances. (Ref: Para. R113.3)
- Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any judgements the assurance practitioner has made. (Ref: Para. R120.5 to 120.5 A3, and R120.9 to 120.9 A2)

120.5 A8 Managing complexity might also involve:

- Analysing, and investigating as relevant, any uncertain elements, the variables and assumptions and how they are connected or interdependent.
- Using technology to analyse relevant data to inform the assurance practitioner's judgement.
- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.

Reasonable and Informed Third Party

120.5 A9 The reasonable and informed third party test is a consideration by the assurance practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the assurance practitioner knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the assurance practitioner's conclusions in an impartial manner.

Identifying Threats

R120.6 The assurance practitioner shall identify threats to compliance with the fundamental principles.

120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the assurance practitioner's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, or the firm that can enhance the assurance practitioner acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements might differ and, consequently, different types of threats might be created.

120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

(a) Self-interest threat – the threat that a financial or other interest will inappropriately influence an assurance practitioner's judgement or behaviour;

(b) Self-review threat – the threat that an assurance practitioner will not appropriately evaluate the results of a previous judgement made, or an activity performed by the assurance practitioner, or by another individual within the assurance practitioner's firm, on which the assurance practitioner will rely when forming a judgement as part of performing a current activity;

(c) Advocacy threat – the threat that an assurance practitioner will promote a client's position to the point that the assurance practitioner's objectivity is compromised;

(d) Familiarity threat – the threat that due to a long or close relationship with a client, an assurance practitioner will be too sympathetic to their interests or too accepting of their work; and

(e) Intimidation threat – the threat that an assurance practitioner will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the assurance practitioner.

120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Evaluating Threats

R120.7 When the assurance practitioner identifies a threat to compliance with the fundamental principles, the assurance practitioner shall evaluate whether such a threat is at an acceptable level.

Acceptable Level

120.7 A1 An acceptable level is a level at which an assurance practitioner using the reasonable and informed third party test would likely conclude that the assurance practitioner complies with the fundamental principles.

Factors Relevant in Evaluating the Level of Threats

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

120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the assurance practitioner and the general public to draw attention to unethical behaviour.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Consideration of New Information or Changes in Facts and Circumstances

R120.9 If the assurance practitioner becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the assurance practitioner shall re-evaluate and address that threat accordingly.

120.9 A1 Remaining alert throughout the professional activity assists the assurance practitioner in determining whether new information has emerged or changes in facts and circumstances have occurred that:

(a) Impact the level of a threat; or

(b) Affect the assurance practitioner's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

120.9 A2 If new information results in the identification of a new threat, the assurance practitioner is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

Addressing Threats

R120.10 If the assurance practitioner determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the assurance practitioner shall address the threats by eliminating them or reducing them to an acceptable level. The assurance practitioner shall do so by:

(a) Eliminating the circumstances, including interests or relationships, that are creating the threats;

(b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or

(c) Declining or ending the specific professional activity.

Actions to Eliminate Threats

120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

Safeguards

120.10 A2 Safeguards are actions, individually or in combination, that the assurance practitioner takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Consideration of Significant Judgements Made and Overall Conclusions Reached

R120.11 The assurance practitioner shall form an overall conclusion about whether the actions that the assurance practitioner takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the assurance practitioner shall:

(a) Review any significant judgements made or conclusions reached; and

(b) Use the reasonable and informed third party test.

Other Considerations when Applying the Conceptual Framework

Bias

120.12 A1 Conscious or unconscious bias affects the exercise of professional judgement when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.12 A2 Examples of potential bias to be aware of when exercising professional judgement include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favour output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgements or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to provide additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

Organisational Culture

120.13 A1 The effective application of the conceptual framework by an assurance practitioner is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the assurance practitioner’s organisation.

120.13 A2 The promotion of an ethical culture within an organisation is most effective when:

- Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating the ethical values of the organisation;

- Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behaviour, including whistle-blowers; and
- The organisation adheres to ethical values in its dealings with third parties.

120.13 A3 Assurance practitioners are expected to:

(a) Encourage and promote an ethics-based culture in their organisation, taking into account their position and seniority; and

(b) Exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the assurance practitioner, or the firm has a professional or business relationship.

Considerations for Audits, Reviews, Other Assurance and Related Services Engagements

Firm Culture

120.14 A1 Professional and Ethical Standard 3 (Revised)[1] sets out requirements and application material relating to firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

Independence

120.15 A1 Assurance practitioners are required by *International Independence Standards (New Zealand)* to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit, review or assurance team member's integrity, objectivity or professional scepticism has been compromised.

120.15 A2 *International Independence Standards (New Zealand)* set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Assurance practitioners and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

[1] Professional and Ethical Standard 3 ~~(Revised),~~ *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of audits, reviews and other assurance engagements, a system of quality management designed, implemented and operated by a firm in accordance with the quality management standards issued by the New Zealand Auditing and Assurance Standards Board is an example of such conditions, policies and procedures.

Professional Scepticism

120.16 A1 Under auditing, review and other assurance standards, including those issued by the New Zealand Auditing and Assurance Standards Board, assurance practitioners are required to exercise professional scepticism when planning and performing audits, reviews and other assurance engagements. Professional scepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

120.16 A2 In an audit of financial statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional scepticism, as shown in the following examples:

- *Integrity* requires the assurance practitioner to be straightforward and honest. For example, the assurance practitioner complies with the principle of integrity by:
    - Being straightforward and honest when raising concerns about a position taken by a client;
    - Pursuing enquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.
    - Having the strength of character to act appropriately. This would involve:
        a. Standing one's ground when confronted by dilemmas and difficult situations.
        b. Challenging others as and when circumstances warrant,

      in a manner appropriate to the circumstances.

  In doing so, the assurance practitioner demonstrates the critical assessment of audit evidence that contributes to the exercise of professional scepticism.
- *Objectivity* requires the assurance practitioner to exercise professional or business judgement without being compromised by:
    (a) Bias,
    (b) Conflict of interest; or
    (c) Undue influence of, or reliance on, individuals, organisations, technology or other factors.

  For example, the assurance practitioner complies with the principle of objectivity by:
    (a) Recognising circumstances or relationships such as familiarity with the client, that might compromise the assurance practitioner’s professional or business judgement; and

(b) Considering the impact of such circumstances and relationships on the assurance practitioner's judgement when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

In doing so, the assurance practitioner behaves in a manner that contributes to the exercise of professional scepticism.

- *Professional competence and due care* requires the assurance practitioner to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the assurance practitioner complies with the principle of professional competence and due care by:
  - Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;
  - Designing and performing appropriate audit procedures; and
  - Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

  In doing so, the assurance practitioner behaves in a manner that contributes to the exercise of professional scepticism.

PART 2 – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM

CONTENTS

Page

SECTION 200 APPLYING THE CONCEPTUAL FRAMEWORK – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM. 28
SECTION 210 CONFLICTS OF INTEREST 33
SECTION 220 PREPARATION AND PRESENTATION OF INFORMATION 36
SECTION 230 ACTING WITH SUFFICIENT EXPERTISE 42
SECTION 240 FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL OR NON-FINANCIAL REPORTING AND DECISION MAKING 43
SECTION 250 INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY 45
SECTION 260 RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS 50
SECTION 270 PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES 58
SECTION 280 TAX PLANNING ACTIVITIES 62
SECTION 290 USING THE WORK OF AN EXTERNAL EXPERT 63

SECTION 200 APPLYING THE CONCEPTUAL FRAMEWORK – ASSURANCE PRACTITIONERS PERFORMING PROFESSIONAL ACTIVITIES PURSUANT TO THEIR RELATIONSHIP WITH THE FIRM.

Introduction

200.1 This Part of the Code sets out requirements and application material for assurance practitioners, performing professional activities pursuant to their relationship with the firm, when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by assurance practitioners, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires assurance practitioners to be alert for such facts and circumstances.

200.2 Investors, creditors, employing organisations and other sectors of the business community, as well as governments and the general public, might rely on the work of assurance practitioners. Assurance practitioners might be solely or jointly responsible for the preparation and reporting of financial and non-financial, including sustainability, information, on which both their employing organisations and third parties might rely. They might also be responsible for providing effective financial management and competent advice on a variety of business-related matters.

200.3 An assurance practitioner might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organisation. The legal form of the relationship of the assurance practitioner with the employing organisation has no bearing on the ethical responsibilities placed on the assurance practitioner.

200.4 [Amended by the NZAuASB]

NZ 200.4 In this Part, the term "assurance practitioner" refers to an individual who is an assurance practitioner when performing professional activities pursuant to the assurance practitioner's relationship with the assurance practitioner's firm, whether as a contractor, employee or owner. The provisions in Part 2 deal mainly with matters that are relevant to professional activities that occur internally within the employing organisation. A number of those provisions may be less relevant to an assurance practitioner. The assurance practitioner uses professional judgement when determining which of those provisions are relevant to the assurance practitioner. More information on when Part 2 is applicable to assurance practitioners is set out in paragraphs R120.4, R300.5 and 300.5 A1.

Requirements and Application Material

General

R200.5 An assurance practitioner shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

200.5 A1 An assurance practitioner has a responsibility to further the legitimate objectives of the assurance practitioner's employing organisation. The Code does not seek to hinder assurance practitioners from fulfilling that responsibility, but addresses circumstances in which compliance with the fundamental principles might be compromised.

200.5 A2 Assurance practitioners may promote the position of the employing organisation when furthering the legitimate goals and objectives of their employing organisation, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.

200.5 A3 The more senior the position of an assurance practitioner, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organisation. To the extent that they are able to do so, taking into account their position and seniority in the organisation, assurance practitioners are expected to encourage and promote an ethics-based culture in the organisation and exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the assurance practitioner or the employing organisation has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Management processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

200.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for an assurance practitioner when undertaking a professional activity:

(a) Self-interest Threats

- An assurance practitioner holding a financial interest in, or receiving a loan or guarantee from, the employing organisation.
- An assurance practitioner participating in incentive compensation arrangements offered by the employing organisation.
- An assurance practitioner having access to corporate assets for personal use.
- An assurance practitioner being offered a gift or special treatment from a supplier of the employing organisation.

(b) Self-review Threats

- An assurance practitioner determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.
- An assurance practitioner determining the appropriate methodology to calculate emission reductions after performing the feasibility study supporting a capital project to reduce emissions.

(c) Advocacy Threats

- An assurance practitioner having the opportunity to manipulate information in a prospectus, including in relation to a sustainability or sustainability-linked bond, in order to obtain favourable financing.

(d) Familiarity Threats

- An assurance practitioner being responsible for the financial or non-financial, including sustainability, reporting of the employing organisation when an

immediate or close family member employed by the organisation makes decisions that affect the financial or non-financial reporting of the organisation.

- An assurance practitioner having a long association with individuals influencing business decisions.

(e) Intimidation Threats

- An assurance practitioner or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
  - The application of an accounting principle or a sustainability reporting principle.
  - The determination of measurement methods, metrics, targets, estimation criteria or assumptions for sustainability information.
  - The way in which financial or non-financial information is to be reported.
- An individual attempting to influence the decision-making process of the assurance practitioner, for example with regard to the awarding of contracts or the application of an accounting principle or a sustainability reporting principle.

Identifying Threats Associated with the Use of Technology

200.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for an assurance practitioner when undertaking a professional activity:

- Self-interest Threats
  - The data available might not be sufficient for the effective use of the technology.
  - The technology might not be appropriate for the purpose for which it is to be used.
  - The assurance practitioner might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

  (Ref: Para. 230.2).
- Self-review Threats
  - The technology was designed or developed using the knowledge, expertise or judgement of the assurance practitioner or employing organisation.

Evaluating Threats

200.7 A1 The conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level.

200.7 A2 The assurance practitioner's evaluation of the level of a threat is also impacted by the nature and scope of the professional activity.

200.7 A3 The assurance practitioner's evaluation of the level of a threat might be impacted by the work environment within the employing organisation and its operating environment. For example:

- Leadership that stresses the importance of ethical behaviour and the expectation that employees will act in an ethical manner.
- Policies and procedures to empower and encourage employees to communicate ethics issues that concern them to senior levels of management without fear of retribution.
- Policies and procedures to implement and monitor the quality of employee performance.
- Systems of corporate oversight or other oversight structures and strong internal controls over financial and non-financial, including sustainability, information and their interconnection.
- Recruitment procedures emphasising the importance of employing high calibre competent personnel.
- Timely communication of policies and procedures, including any changes to them, to all employees, and appropriate training and education on such policies and procedures.
- Ethics and code of conduct policies.

200.7 A4 The assurance practitioner's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the employing organisation and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees, so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

Addressing Threats

200.8 A1 Sections 210 to 270 describe certain threats that might arise during the course of performing professional activities and include examples of actions that might address such threats.

200.8 A2 In extreme situations, if the circumstances that created the threats cannot be eliminated and safeguards are not available or capable of being applied to reduce the threat to an acceptable level, it might be appropriate for an assurance practitioner to resign from the employing organisation.

Communicating with Those Charged with Governance

R200.9 When communicating with those charged with governance in accordance with the Code, an assurance practitioner shall determine the appropriate individual(s) within the employing organisation's governance structure with whom to communicate. If the assurance practitioner communicates with a subgroup of those charged with governance, the assurance practitioner shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

200.9 A1 In determining with whom to communicate, an assurance practitioner might consider:

(a) The nature and importance of the circumstances; and

(b) The matter to be communicated.

200.9 A2 Examples of a subgroup of those charged with governance include an audit committee, another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.

R200.10 If an assurance practitioner communicates with individuals who have management responsibilities as well as governance responsibilities, the assurance practitioner shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the assurance practitioner would otherwise communicate.

200.10 A1 In some circumstances, all of those charged with governance are involved in managing the employing organisation, for example, a small business where a single owner manages the organisation and no one else has a governance role. In these cases, if matters are communicated with individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the assurance practitioner has satisfied the requirement to communicate with those charged with governance.

SECTION 210 CONFLICTS OF INTEREST

Introduction

210.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

210.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:

(a) An assurance practitioner undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or

(b) The interest of an assurance practitioner with respect to a particular matter and the interests of a party for whom the assurance practitioner undertakes a professional activity related to that matter are in conflict.

A party might include an employing organisation, a vendor, a customer, a lender, a shareholder, or another party.

210.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest.

Requirements and Application Material

General

R210.4 An assurance practitioner shall not allow a conflict of interest to compromise professional or business judgement.

210.4 A1 Examples of circumstances that might create a conflict of interest include:

- Serving in a management or governance position for two employing organisations and acquiring confidential information from one organisation that might be used by the assurance practitioner to the advantage or disadvantage of the other organisation.
- Undertaking a professional activity for each of two parties in a partnership, where both parties are employing the assurance practitioner to assist them to dissolve their partnership.
- Preparing financial or non-financial information for certain members of management of the assurance practitioner's employing organisation who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the employing organisation when an immediate family member of the assurance practitioner might benefit financially from the transaction.
- Serving in a governance capacity in an employing organisation that is approving certain investments for the company where one of those investments will increase the value of the investment portfolio of the assurance practitioner or an immediate family member.

Conflict Identification

R210.5 An assurance practitioner shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

(a) The nature of the relevant interests and relationships between the parties involved; and

(b) The activity and its implication for relevant parties.

R210.6 An assurance practitioner shall remain alert to changes over time in the nature of the activities, interests and relationships that might create a conflict of interest while performing a professional activity.

Threats Created by Conflicts of Interest

210.7 A1 In general, the more direct the connection between the professional activity and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

210.7 A2 An example of an action that might eliminate threats created by conflicts of interest is withdrawing from the decision-making process related to the matter giving rise to the conflict of interest.

210.7 A3 Examples of actions that might be safeguards to address threats created by conflicts of interest include:

- Restructuring or segregating certain responsibilities and duties.
- Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director.

Disclosure and Consent

General

210.8 A1 It is generally necessary to:

(a) Disclose the nature of the conflict of interest and how any threats created were addressed to the relevant parties, including to the appropriate levels within the employing organisation affected by a conflict; and

(b) Obtain consent from the relevant parties for the assurance practitioner to undertake the professional activity when safeguards are applied to address the threat.

210.8 A2 Consent might be implied by a party's conduct in circumstances where the assurance practitioner has sufficient evidence to conclude that the parties know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

210.8 A3 If such disclosure or consent is not in writing, the assurance practitioner is encouraged to document:

(a) The nature of the circumstances giving rise to the conflict of interest;

(b) The safeguards applied to address the threats when applicable; and

(c) The consent obtained.

Other Considerations

210.9 A1 When addressing a conflict of interest, the assurance practitioner is encouraged to seek guidance from within the employing organisation or from others, such as a professional body, legal counsel or another assurance practitioner. When making such disclosures or sharing information within the employing organisation and seeking guidance of third parties, the principle of confidentiality applies.

SECTION 220 PREPARATION AND PRESENTATION OF INFORMATION

Introduction

220.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

220.2 Preparing or presenting information might create a self-interest, intimidation or other threats to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

220.3 A1 Assurance practitioners at all levels in an employing organisation are involved in the preparation or presentation of information both within and outside the organisation.

220.3 A2 Stakeholders to whom, or for whom, such information is prepared or presented, include:

- Management and those charged with governance.
- Investors and lenders or other creditors.
- Regulatory bodies.

This information might assist stakeholders in understanding and evaluating aspects of the employing organisation's activities and state of affairs and in making decisions concerning the organisation. Information can include financial and non-financial information that might be made public or used for internal purposes.

Examples include:

- Operating and performance reports.
- Decision support analyses.
- Budgets and forecasts.
- Information provided to the internal and external auditors.
- Sustainability information, including information on the organisation's business model, services, products, or other relevant activities, provided to the sustainability assurance practitioner.
- Risk and impact analyses.
- General and special purpose financial statements.
- Tax returns.
- Reports filed with regulatory bodies for legal and compliance purposes.

220.3 A3 For the purposes of this section, preparing or presenting information includes collecting, recording, measuring, maintaining and approving information.

R220.4 When preparing or presenting information, an assurance practitioner shall:

(a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;

(b) Prepare or present the information in a manner that is intended neither to mislead others nor to influence contractual or regulatory outcomes inappropriately;

(c) Exercise professional judgement to:

(i) Represent the facts accurately and completely in all material respects;

(ii) Describe clearly the true nature and impacts of business transactions or activities; and

(iii) Collect, classify, record or measure information in a timely and proper manner; and

(d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately.

(e) Avoid undue influence of, or undue reliance on, individuals, organisations or technology; and

(f) Be aware of the risk of bias.

220.4 A1 An example of preparing or presenting the information in a manner that is intended to mislead others is deliberately giving a false impression in sustainability information about how well an organisation or an investment is aligned with or achieving its sustainability goals, through practices such as:

- Omitting relevant information to misrepresent the nature and impacts of business activities.
- Including false information.
- Inappropriately applying or reporting metrics.
- Placing excessive emphasis on certain information while understating other information.

220.4 A2 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

220.4 A3 An example of failing to exercise professional judgement to represent the facts accurately and completely in all material respects is placing undue weight on information that corroborates an organisation's achievement of its targets or insufficient weight on other information which contradicts such achievement.

220.4 A4 An example of placing undue reliance on an organisation is using the data provided by a large supplier within the entity's value chain to prepare or present the entity's sustainability information, without considering the source, relevance and sufficiency of that supplier's data.

Use of Discretion in Preparing or Presenting Information

R220.5 Preparing or presenting information might require the exercise of discretion in making professional judgements. The assurance practitioner shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

220.5 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes include:

- Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.

- Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, for example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.
- Selecting or changing measurement methods among two or more alternatives permitted under the applicable sustainability reporting framework in order to misrepresent information.
- Selecting, omitting or obscuring opportunities, risks or impacts as part of a materiality assessment in order to misrepresent sustainability information.
- Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.
- Determining the timing of disclosures of sustainability information to achieve a more favourable presentation or outcome in order to mislead.
- Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.
- Selecting disclosures, for example, omitting or obscuring information relating to financial, sustainability or operating risk in order to mislead.
- Preparing forward-looking information by relying on assumptions that are unrealistic or inconsistent with management's decisions or objectives in order to mislead.

R220.6 When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the assurance practitioner shall exercise professional judgement to identify and consider:

(a) The purpose for which the information is to be used;

(b) The context within which it is given; and

(c) The audience to whom it is addressed.

220.6 A1 For example, when preparing or presenting pro forma reports, budgets or forecasts, or sustainability information, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgements.

220.6 A2 The assurance practitioner might also consider clarifying the intended audience, context and purpose of the information to be presented.

Using the Work of Others

R220.7 An assurance practitioner who intends to use the work of others, whether internal or external to the employing organisation or other organisations, other than external experts, shall exercise professional judgement to determine the appropriate steps to take, if any, in order to fulfil the responsibilities set out in paragraph R220.4.

220.7 A1 When an assurance practitioner intends to use the work of an external expert, the requirements and application material set out in Section 290 apply.

220.7 A2 Factors to consider when an assurance practitioner intends to use the work of others include:

- The reputation and expertise of, and resources available to, the other individual or organisation.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organisation.

Using the Output of Technology

R220.8 An assurance practitioner who intends to use the output of technology, whether that technology was developed internally or provided by third parties, shall exercise professional judgement to determine the appropriate steps to take, if any, in order to fulfil the responsibilities set out in paragraph R220.4.

220.8 A1 Factors to consider when an assurance practitioner intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the assurance practitioner has the ability, or has access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The employing organisation's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorising user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Addressing Information that Is or Might be Misleading

R220.9 When the assurance practitioner knows or has reason to believe that the information with which the assurance practitioner is associated is misleading, the assurance practitioner shall take appropriate actions to seek to resolve the matter.

220.9 A1 Actions that might be appropriate include:

- Discussing concerns that the information is misleading with the assurance practitioner's superior and/or the appropriate level(s) of management within the assurance practitioner's employing organisation or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
    - Having the information corrected.
    - If the information has already been disclosed to the intended users, informing them of the correct information.

- Consulting the policies and procedures of the employing organisation (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

220.9 A2 The assurance practitioner might determine that the employing organisation has not taken appropriate action. If the assurance practitioner continues to have reason to believe that the information is misleading, the following further actions might be appropriate provided that the assurance practitioner remains alert to the principle of confidentiality:

- Consulting with:
  - A relevant professional body.
  - The internal or external auditor or sustainability assurance practitioner of the employing organisation.
  - Legal counsel.
- Determining whether any requirements exist to communicate to:
  - Third parties, including users of the information.
  - Regulatory and oversight authorities.

R220.10 If after exhausting all feasible options, the assurance practitioner determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the assurance practitioner shall refuse to be or to remain associated with the information.

220.10 A1 In such circumstances, it might be appropriate for an assurance practitioner to resign from the employing organisation.

Documentation

220.11 A1 The assurance practitioner is encouraged to document:

- The facts.
- The accounting or reporting principles or other relevant professional standards involved.
- The communications and parties with whom matters were discussed.
- The assurance practitioner's analysis, assumptions, courses of action considered, and judgements and decisions made in preparing or presenting the information.
- How the assurance practitioner attempted to address the matter(s).

Other Considerations

220.12 A1 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to financial or non-financial, including sustainability, reporting and decision making, the requirements and application material set out in Section 240 apply.

220.12 A2 Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.

220.12 A3 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.

220.12 A4 When an assurance practitioner is considering using the work of others or the output of technology, a consideration is whether the assurance practitioner is in a position within the employing organisation to obtain information in relation to the factors necessary to determine whether such use is appropriate.

SECTION 230 ACTING WITH SUFFICIENT EXPERTISE

Introduction

230.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

230.2 Acting without sufficient expertise creates a self-interest threat to compliance with the principle of professional competence and due care. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

R230.3 An assurance practitioner shall not intentionally mislead an employing organisation as to the level of expertise possessed.

230.3 A1 The principle of professional competence and due care requires that an assurance practitioner only undertake significant tasks for which the assurance practitioner has, or can obtain, sufficient training or experience.

230.3 A2 A self-interest threat to compliance with the principle of professional competence and due care might be created if an assurance practitioner has:

- Insufficient time for performing or completing the relevant duties.
- Incomplete, restricted or otherwise inadequate information for performing the duties.
- Insufficient experience, training and/or education.
- Inadequate resources for the performance of the duties.

230.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The extent to which the assurance practitioner is working with others.
- The relative seniority of the assurance practitioner in the business.
- The level of supervision and review applied to the work.

230.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining assistance or training from someone with the necessary expertise.
- Ensuring that there is adequate time available for performing the relevant duties.

R230.4 If a threat to compliance with the principle of professional competence and due care cannot be addressed, an assurance practitioner shall determine whether to decline to perform the duties in question. If the assurance practitioner determines that declining is appropriate, the assurance practitioner shall communicate the reasons.

Other Considerations

230.5 A1 The requirements and application material in Section 270 apply when an assurance practitioner is pressured to act in a manner that might lead to a breach of the principle of professional competence and due care.

SECTION 240 FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL OR NON-FINANCIAL REPORTING AND DECISION MAKING

Introduction

240.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

240.2 Having a financial interest, or knowing of a financial interest held by an immediate or close family member might create a self-interest threat to compliance with the principles of objectivity or confidentiality. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

R240.3 An assurance practitioner shall not manipulate information or use confidential information for personal gain or for the financial gain of others.

240.3 A1 Assurance practitioners might have financial interests or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial interests include those arising from compensation or incentive arrangements linked to financial or non-financial, including sustainability, reporting and decision making.

240.3 A2 Examples of circumstances that might create a self-interest threat include situations in which the assurance practitioner or an immediate or close family member:

- Has a motive and opportunity to manipulate price-sensitive information in order to gain financially.
- Holds a direct or indirect financial interest in the employing organisation and the value of that financial interest might be directly affected by decisions made by the assurance practitioner.
- Is eligible for a bonus or incentive based on financial or non-financial performance goals and the value of that bonus or incentive might be directly affected by decisions made by the assurance practitioner.
- Holds, directly or indirectly, deferred bonus share rights or share options in the employing organisation, the value of which might be affected by decisions made by the assurance practitioner.
- Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximise the value of the employing organisation's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain financial or non-financial performance conditions being met.

240.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The significance of the financial interest. What constitutes a significant financial interest will depend on personal circumstances and the materiality of the financial interest to the individual.
- Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.

- In accordance with any internal policies, disclosure to those charged with governance of:
  - All relevant interests.
  - Any plans to exercise entitlements or trade in relevant shares.
- Internal and external audit procedures that are specific to address issues that give rise to the financial interest.

240.3 A4 Threats created by compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. See Section 270, *Pressure to Breach the Fundamental Principles*.

SECTION 250 INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Introduction

250.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

250.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behaviour.

250.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when undertaking professional activities that does not constitute non-compliance with laws and regulations. This section also requires an assurance practitioner to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and Application Material

General

250.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour. Inducements can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:

- Gifts.
- Hospitality.
- Entertainment.
- Political or charitable donations.
- Appeals to friendship and loyalty.
- Employment or other commercial opportunities.
- Preferential treatment, rights or privileges.

Inducements Prohibited by Laws and Regulations

R250.5 In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The assurance practitioner shall obtain an understanding of relevant laws and regulations and comply with them when the assurance practitioner encounters such circumstances.

Inducements Not Prohibited by Laws and Regulations

250.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

Inducements with Intent to Improperly Influence Behaviour

R250.7 An assurance practitioner shall not offer, or encourage others to offer, any inducement that is made, or which the assurance practitioner considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

R250.8 An assurance practitioner shall not accept, or encourage others to accept, any inducement that the assurance practitioner concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

250.9 A1 An inducement is considered as improperly influencing an individual's behaviour if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for an assurance practitioner in considering what constitutes unethical behaviour on the part of the assurance practitioner and, if necessary by analogy, other individuals.

250.9 A2 A breach of the fundamental principle of integrity arises when an assurance practitioner offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behaviour of the recipient or of another individual.

250.9 A3 The determination of whether there is actual or perceived intent to improperly influence behaviour requires the exercise of professional judgement. Relevant factors to consider might include:

- The nature, frequency, value and cumulative effect of the inducement.
- Timing of when the inducement is offered relative to any action or decision that it might influence.
- Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
- Whether the inducement is an ancillary part of a professional activity, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the employing organisation, such as other customers or vendors.
- The roles and positions of the individuals offering or being offered the inducement.
- Whether the assurance practitioner knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the counterparty's employing organisation.
- The degree of transparency with which the inducement is offered.
- Whether the inducement was required or requested by the recipient.
- The known previous behaviour or reputation of the offeror.

Consideration of Further Actions

250.10 A1 If the assurance practitioner becomes aware of an inducement offered with actual or perceived intent to improperly influence behaviour, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R250.7 and R250.8 are met.

250.10 A2 Examples of actions that might be safeguards to address such threats include:

- Informing senior management or those charged with governance of the employing organisation of the assurance practitioner or the offeror regarding the offer.
- Amending or terminating the business relationship with the offeror.

Inducements with No Intent to Improperly Influence Behaviour

250.11 A1 The requirements and application material set out in the conceptual framework apply when an assurance practitioner has concluded there is no actual or perceived intent to improperly influence the behaviour of the recipient or of another individual.

250.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

250.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the assurance practitioner has concluded there is no actual or perceived intent to improperly influence behaviour include:

- Self-interest threats
    - An assurance practitioner is offered part-time employment by a vendor.
- Familiarity threats
    - An assurance practitioner regularly takes a customer or supplier to sporting events.
- Intimidation threats
    - An assurance practitioner accepts hospitality, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

250.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 250.9 A3 for determining intent.

250.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.
- Transferring responsibility for any business-related decision involving the counterparty to another individual who the assurance practitioner has no reason to believe would be, or would be perceived to be, improperly influenced in making the decision.

250.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management or those charged with governance of the employing organisation of the assurance practitioner or of the counterparty about offering or accepting an inducement.
- Registering the inducement in a log maintained by the employing organisation of the assurance practitioner or the counterparty.
- Having an appropriate reviewer, who is not otherwise involved in undertaking the professional activity, review any work performed or decisions made by the assurance practitioner with respect to the individual or organisation from which the assurance practitioner accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to those charged with governance or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.

- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

Immediate or Close Family Members

R250.12 An assurance practitioner shall remain alert to potential threats to the assurance practitioner's compliance with the fundamental principles created by the offering of an inducement:

(a) By an immediate or close family member of the assurance practitioner to a counterparty with whom the assurance practitioner has a professional relationship; or

(b) To an immediate or close family member of the assurance practitioner by a counterparty with whom the assurance practitioner has a professional relationship.

R250.13 Where the assurance practitioner becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behaviour of the assurance practitioner or of the counterparty, or considers a reasonable and informed third party would be likely to conclude such intent exists, the assurance practitioner shall advise the immediate or close family member not to offer or accept the inducement.

250.13 A1 The factors set out in paragraph 250.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behaviour of the assurance practitioner or of the counterparty. Another factor that is relevant is the nature or closeness of the relationship, between:

(a) The assurance practitioner and the immediate or close family member;

(b) The immediate or close family member and the counterparty; and

(c) The assurance practitioner and the counterparty.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the assurance practitioner by a counterparty with whom the assurance practitioner is negotiating a significant contract might indicate such intent.

250.13 A2 The application material in paragraph 250.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behaviour of the assurance practitioner or of the counterparty even if the immediate or close family member has followed the advice given pursuant to paragraph R250.13.

Application of the Conceptual Framework

250.14 A1 Where the assurance practitioner becomes aware of an inducement offered in the circumstances addressed in paragraph R250.12, threats to compliance with the fundamental principles might be created where:

(a) The immediate or close family member offers or accepts the inducement contrary to the advice of the assurance practitioner pursuant to paragraph R250.13; or

(b) The assurance practitioner does not have reason to believe an actual or perceived intent to improperly influence the behaviour of the assurance practitioner or of the counterparty exists.

250.14 A2 The application material in paragraphs 250.11 A1 to 250.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 250.13 A1.

Other Considerations

250.15 A1 If an assurance practitioner is offered an inducement by the employing organisation relating to financial interests, compensation and incentives linked to performance, the requirements and application material set out in Section 240 apply.

250.15 A2 If an assurance practitioner encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by other individuals working for or under the direction of the employing organisation, the requirements and application material set out in Section 260 apply.

250.15 A3 If an assurance practitioner faces pressure to offer or accept inducements that might create threats to compliance with the fundamental principles, the requirements and application material set out in Section 270 apply.

SECTION 260 RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

260.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

260.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when an assurance practitioner becomes aware of non-compliance or suspected non-compliance with laws and regulations.

260.3 An assurance practitioner might encounter or be made aware of non-compliance or suspected non-compliance in the course of carrying out professional activities. This section guides the assurance practitioner in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:

(a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the employing organisation's financial statements or sustainability information; and

(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organisation's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the employing organisation's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Assurance Practitioner in Relation to Non-compliance with Laws and Regulations

260.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the assurance practitioner are:

(a) To comply with the principles of integrity and professional behaviour;

(b) By alerting management or, where appropriate, those charged with governance of the employing organisation, to seek to:

(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or

(ii) Deter the non-compliance where it has not yet occurred; and

(c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

260.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

(a) The assurance practitioner's employing organisation;

(b) Those charged with governance of the employing organisation;

(c) Management of the employing organisation; or

(d) Other individuals working for or under the direction of the employing organisation.

260.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labour conditions and rights of employees.
- Consumer rights.

260.5 A3 Non-compliance might result in fines, litigation or other consequences for the employing organisation, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, non-compliance that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R260.6 In some jurisdictions, there are legal or regulatory provisions governing how assurance practitioners are required to address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the assurance practitioner shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

(a) Any requirement to report the matter to an appropriate authority; and

(b) Any prohibition on alerting the relevant party.

260.6 A1 A prohibition on alerting the relevant party might arise, for example, pursuant to anti-money laundering legislation.

260.7 A1 This section applies regardless of the nature of the employing organisation, including whether or not it is a public interest entity.

260.7 A2 An assurance practitioner who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the employing organisation, its stakeholders and the general public.

260.7 A3 This section does not address:

(a) Personal misconduct unrelated to the business activities of the employing organisation; and

(b) Non-compliance by parties other than those specified in paragraph 260.5 A1.

The assurance practitioner might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

Responsibilities of the Employing Organisation's Management and Those Charged with Governance

260.8 A1 The employing organisation's management, with the oversight of those charged with governance, is responsible for ensuring that the employing organisation's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

(a) The employing organisation;

(b) An individual charged with governance of the employing organisation;

(c) A member of management; or

(d) Other individuals working for or under the direction of the employing organisation.

Responsibilities of All Assurance Practitioners

R260.9 If protocols and procedures exist within the assurance practitioner's employing organisation to address non-compliance or suspected non-compliance, the assurance practitioner shall consider them in determining how to respond to such non-compliance.

260.9 A1 Many employing organisations have established protocols and procedures regarding how to raise non-compliance or suspected non-compliance internally. These protocols and procedures include, for example, an ethics policy or internal whistle-blowing mechanism. Such protocols and procedures might allow matters to be reported anonymously through designated channels.

R260.10 Where an assurance practitioner becomes aware of a matter to which this section applies, the steps that the assurance practitioner takes to comply with this section shall be taken on a timely basis. For the purpose of taking timely steps, the assurance practitioner shall have regard to the nature of the matter and the potential harm to the interests of the employing organisation, investors, creditors, employees or the general public.

Responsibilities of Senior Assurance Practitioners

260.11 A1 Senior assurance practitioners are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organisation's human, financial, technological, physical and intangible resources. There is a greater expectation for such individuals to take whatever action is appropriate in the public interest to respond to non-compliance or suspected non-compliance than other assurance practitioners within the employing organisation. This is because of senior assurance practitioners' roles, positions and spheres of influence within the employing organisation.

Obtaining an Understanding of the Matter

R260.12 If, in the course of carrying out professional activities, a senior assurance practitioner becomes aware of information concerning non-compliance or suspected non-compliance, the senior assurance practitioner shall obtain an understanding of the matter. This understanding shall include:

(a) The nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur;

(b) The application of the relevant laws and regulations to the circumstances; and

(c) An assessment of the potential consequences to the employing organisation, investors, creditors, employees or the wider public.

260.12 A1 A senior assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgement. However, the assurance practitioner is not expected to have a level of understanding of laws and regulations greater than that which is required for the assurance practitioner's role within the employing organisation. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

260.12 A2 Depending on the nature and significance of the matter, the senior assurance practitioner might cause, or take appropriate steps to cause, the matter to be investigated internally. The assurance practitioner might also consult on a confidential basis with others within the employing organisation or a professional body, or with legal counsel.

Addressing the Matter

R260.13 If the senior assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the assurance practitioner shall, subject to paragraph R260.9, discuss the matter with the assurance practitioner's immediate superior, if any. If the assurance practitioner's immediate superior appears to be involved in the matter, the assurance practitioner shall discuss the matter with the next higher level of authority within the employing organisation.

260.13 A1 The purpose of the discussion is to enable a determination to be made as to how to address the matter.

R260.14 The senior assurance practitioner shall also take appropriate steps to:

(a) Have the matter communicated to those charged with governance;

(b) Comply with applicable laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority;

(c) Have the consequences of the non-compliance or suspected non-compliance rectified, remediated or mitigated;

(d) Reduce the risk of re-occurrence; and

(e) Seek to deter the commission of the non-compliance if it has not yet occurred.

260.14 A1 The purpose of communicating the matter to those charged with governance is to obtain their concurrence regarding appropriate actions to take to respond to the matter and to enable them to fulfil their responsibilities.

260.14 A2 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

R260.15 In addition to responding to the matter in accordance with the provisions of this section, the senior assurance practitioner shall determine whether disclosure of the matter to the employing organisation's external auditor and/or sustainability assurance practitioner performing a sustainability assurance engagement that is within the scope of the *International Independence Standards (New Zealand)* in Part 5, if any, is needed.

260.15 A1 Such disclosure would be pursuant to the senior assurance practitioner's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit or the sustainability assurance practitioner to perform the sustainability assurance

engagement that is within the scope of the *International Independence Standards (New Zealand)* in Part 5.

Determining Whether Further Action Is Needed

R260.16 The senior assurance practitioner shall assess the appropriateness of the response of the assurance practitioner's superiors, if any, and those charged with governance.

260.16 A1 Relevant factors to consider in assessing the appropriateness of the response of the senior assurance practitioner's superiors, if any, and those charged with governance include whether:

- The response is timely.
- They have taken or authorised appropriate action to seek to rectify, remediate or mitigate the consequences of the non-compliance, or to avert the non-compliance if it has not yet occurred.
- The matter has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

R260.17 In light of the response of the senior assurance practitioner's superiors, if any, and those charged with governance, the assurance practitioner shall determine if further action is needed in the public interest.

260.17 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the employing organisation.
- Whether the senior assurance practitioner continues to have confidence in the integrity of the assurance practitioner's superiors and those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the employing organisation, investors, creditors, employees or the general public.

260.17 A2 Examples of circumstances that might cause the senior assurance practitioner no longer to have confidence in the integrity of the assurance practitioner's superiors and those charged with governance include situations where:

- The assurance practitioner suspects or has evidence of their involvement or intended involvement in any non-compliance.
- Contrary to legal or regulatory requirements, they have not reported, or authorised the reporting of, the matter to an appropriate authority within a reasonable period.

R260.18 The senior assurance practitioner shall exercise professional judgement in determining the need for, and nature and extent of, further action. In making this determination, the assurance practitioner shall take into account whether a reasonable and informed third party would be likely to conclude that the assurance practitioner has acted appropriately in the public interest.

260.18 A1 Further action that the senior assurance practitioner might take includes:

- Informing the management of the parent entity of the matter if the employing organisation is a member of a group.
- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Resigning from the employing organisation.

260.18 A2 Resigning from the employing organisation is not a substitute for taking other actions that might be needed to achieve the senior assurance practitioner's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the assurance practitioner. In such circumstances, resignation might be the only available course of action.

Seeking Advice

260.19 A1 As assessment of the matter might involve complex analysis and judgements, the senior assurance practitioner might consider:

- Consulting internally.
- Obtaining legal advice to understand the assurance practitioner's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

260.20 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

260.20 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the senior assurance practitioner might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The employing organisation is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The employing organisation is regulated and the matter is of such significance as to threaten its license to operate.
- The employing organisation is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the employing organisation's securities or pose a systemic risk to the financial markets.
- It is likely that the employing organisation would sell products that are harmful to public health or safety.
- The employing organisation is promoting a scheme to its clients to assist them in evading taxes.

260.20 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend upon the nature of the matter. For example, the appropriate

authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.

- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the senior assurance practitioner or other individuals.

R260.21 If the senior assurance practitioner determines that disclosure of the matter to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.3 of the Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions.

Imminent Breach

R260.22 In exceptional circumstances, the senior assurance practitioner might become aware of actual or intended conduct that the assurance practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the employing organisation, the assurance practitioner shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.3 of the Code.

Documentation

260.23 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the senior assurance practitioner is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the assurance practitioner's superiors, if any, and those charged with governance and other parties.
- How the assurance practitioner's superiors, if any, and those charged with governance have responded to the matter.
- The courses of action the assurance practitioner considered, the judgements made and the decisions that were taken.
- How the assurance practitioner is satisfied that the assurance practitioner has fulfilled the responsibility set out in paragraph R260.17.

Responsibilities of Assurance Practitioners Other than Senior Assurance Practitioners

R260.24 If, in the course of carrying out professional activities, an assurance practitioner becomes aware of information concerning non-compliance or suspected non-compliance, the assurance practitioner shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

260.24 A1 The assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgement. However, the assurance practitioner is not expected to have a level of understanding of laws and regulations greater than that which is required for the assurance practitioner's role within the employing organisation. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

260.24 A2 Depending on the nature and significance of the matter, the assurance practitioner might consult on a confidential basis with others within the employing organisation or a professional body, or with legal counsel.

R260.25 If the assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the assurance practitioner shall, subject to paragraph R260.9, inform an immediate superior to enable the superior to take appropriate action. If the assurance practitioner's immediate superior appears to be involved in the matter, the assurance practitioner shall inform the next higher level of authority within the employing organisation.

R260.26 In exceptional circumstances, the assurance practitioner may determine that disclosure of the matter to an appropriate authority is an appropriate course of action. If the assurance practitioner does so pursuant to paragraphs 260.20 A2 and A3, that disclosure is permitted pursuant to paragraph R114.3 of the Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions.

Documentation

260.27 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the assurance practitioner is encouraged to have the following matters documented:

- The matter.
- The results of discussions with the assurance practitioner's superior, management and, where applicable, those charged with governance and other parties.
- How the assurance practitioner's superior has responded to the matter.
- The courses of action the assurance practitioner considered, the judgements made and the decisions that were taken.

SECTION 270 PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Introduction

270.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

270.2 Pressure exerted on, or by, an assurance practitioner might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

R270.3 An assurance practitioner shall not:

(a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or

(b) Place pressure on others that the assurance practitioner knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

270.3 A1 An assurance practitioner might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:

- Within the employing organisation, for example, from a colleague or superior.
- An external individual or organisation such as a vendor, customer or lender.
- Internal or external targets and expectations.

270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:

- Pressure related to conflicts of interest:
  - Pressure from a family member bidding to act as a vendor to the assurance practitioner's employing organisation to select the family member over another prospective vendor.

  See also Section 210, *Conflicts of Interest*.
- Pressure to influence preparation or presentation of information:
  - Pressure to report misleading financial or non-financial results to meet investor, analyst, lender or other stakeholder expectations.
  - Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
  - Pressure to misrepresent, through labelling or otherwise, how certain programs, projects or products are aligned to or achieving sustainability goals.
  - Pressure from colleagues to misstate income, expenditure, rates of return or sustainability information to bias decision-making on capital projects and acquisitions.

- Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
- Pressure to suppress internal audit reports containing adverse findings.

See also Section 220, *Preparation and Presentation of Information*.

- Pressure to act without sufficient expertise or due care:
  - Pressure from superiors to inappropriately reduce the extent of work performed.
  - Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.
  - Pressure from superiors to prepare sustainability information with insufficient data or deficiencies in the quality or accuracy of data available.

See also Section 230, *Acting with Sufficient Expertise*.

- Pressure related to financial interests:
  - Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate financial or non-financial performance indicators.

See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial or Non-Financial Reporting and Decision Making*.

- Pressure related to inducements:
  - Pressure from others, either internal or external to the employing organisation, to offer inducements to influence inappropriately the judgement or decision making process of an individual or organisation.
  - Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

See also Section 250, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations:
  - Pressure to structure a transaction to evade tax.
  - Pressure to manipulate sustainability information to avoid fines for breaches of environmental laws and regulations.

See also Section 260, *Responding to Non-compliance with Laws and Regulations*.

- Pressure related to level of fees
  - Pressure exerted by an assurance practitioner on another assurance practitioner to provide assurance services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

See also Section 330, *Fees and Other Types of Remuneration*

270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the employing organisation including the extent to which they reflect or emphasise the importance of ethical behaviour and the expectation that employees will act ethically. For example, a corporate culture that tolerates unethical behaviour might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the employing organisation has established, such as ethics or human resources policies that address pressure.

270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the assurance practitioner to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with the assurance practitioner's superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the employing organisation, including when appropriate, explaining any consequential risks to the organisation, for example with:
  - Higher levels of management.
  - Internal or external auditors or the sustainability assurance practitioner.
  - Those charged with governance.
- Disclosing the matter in line with the employing organisation's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
- Consulting with:
  - A colleague, superior, human resources personnel, or another assurance practitioner;
  - Relevant professional or regulatory bodies or industry associations; or
  - Legal counsel.

270.3 A5 An example of an action that might eliminate threats created by pressure is the assurance practitioner's request for a restructure of, or segregation of, certain responsibilities and duties so that the assurance practitioner is no longer involved with the individual or entity exerting the pressure.

Documentation

270.4 A1 The assurance practitioner is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.

- How the matter was addressed.

SECTION 280 TAX PLANNING ACTIVITIES

[*Deleted by the NZAuASB*]

SECTION 290 USING THE WORK OF AN EXTERNAL EXPERT

Introduction

290.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

290.2 An assurance practitioner might use the work of an external expert in the performance of a professional activity for their employing organisation. Using the work of such an external expert might create threats to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional competence and due care.

290.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to using the work of an external expert.

Requirements and Application Material

General

290.4 A1 A self-interest threat to compliance with the principles of integrity and professional competence and due care is created if an assurance practitioner performs a professional activity for which the assurance practitioner has insufficient expertise.

290.4 A2 An action that might be a safeguard to address such a threat is to use the work of an external expert for the professional activity who has the competence, capabilities and objectivity to deliver the work needed for such activity.

290.4 A3 An external expert might be used to undertake specific work to support a professional activity performed by an assurance practitioner. Such work can be in a field that is well-established or emerging. Examples of such work include:

- The valuation of assets such as complex financial instruments, land and buildings, plant and machinery, jewellery, works of art, antiques, intangible assets, assets acquired in business combinations, and assets that may have been impaired.
- The valuation of liabilities such as those assumed in business combinations, those from actual or threatened litigation, environmental liabilities, complex financial instruments, site clean-up liabilities, and those associated with insurance contracts or employee benefit plans.
- The calculation of greenhouse gas emissions.
- The measurement of pollutants emitted to air, water and soil.
- The assessment of forward-looking information about the decarbonisation plans of an entity.
- The assessment of the application of offsetting mechanisms for an entity, such as for carbon or biodiversity.
- The valuation of products and materials designed along principles for a sustainable economy.
- The estimation of oil and gas reserves.
- The interpretation of contracts, laws and regulations, including tax and labour laws and regulations.
- The assessment and evaluation of IT systems, including those related to cybersecurity.

290.4 A4 This section does not apply to:

(a) The use of the work of individuals or organisations that are engaged by the assurance practitioner and are under the assurance practitioner's direction, supervision and review, for example, subcontractors; and

(b) The use of information provided by individuals or organisations that are external information sources for general use. Examples of those information sources include those that provide industry or other benchmarking data or studies, such as information about employment statistics including hours worked and compensation per week by geographical area, real estate prices, carbon emissions by vehicle type, mortality tables, or other datasets for general use.

Agreeing the Terms of Engagement with an External Expert

R290.5 If the assurance practitioner has determined to use an external expert for a professional activity and, having regard to the employing organisation's policies and procedures, has identified an external expert for such purpose, the assurance practitioner shall agree the terms of engagement with the external expert, including the nature, scope and objectives of the work to be performed by the external expert.

290.5 A1 In agreeing the terms of engagement, matters that the assurance practitioner might discuss with the external expert include:

- The intended use and timing of the external expert's work.
- The external expert's planned approach to the work.
- Expectations regarding:
  - The confidentiality of the external expert's work and the inputs to that work.
  - The information to be provided by the external expert and the nature of such information.
  - The content and format of the external expert's completed work, including any assumptions made and limitations to that work.
  - The fees for the external expert's work.
  - The external expert's communication of any non-compliance or suspected non-compliance with laws and regulations committed by the assurance practitioner's employing organisation, or by those charged with governance, management or others working for or under the direction of the employing organisation, of which the external expert becomes aware when performing the work.

290.5 A2 A self-interest, self-review, familiarity or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if an assurance practitioner uses an external expert who does not have the necessary competence, capabilities or objectivity to deliver the work needed for the particular professional activity.

Evaluating the External Expert's Competence, Capabilities, and Objectivity

R290.6 The assurance practitioner shall evaluate whether the external expert has the necessary competence for the assurance practitioner's purpose.

290.6 A1 Competence relates to the nature and level of expertise of the external expert.

290.6 A2 Factors that are relevant in evaluating whether the external expert has the necessary competence include:

- Whether the external expert's credentials, education, training, experience and reputation are relevant to, or consistent with, the nature of the work to be performed.
- Whether the external expert belongs to a relevant professional body or is subject to oversight by a regulatory body or other authority, and, if so, whether the external expert is in good standing.
- Whether any disciplinary actions have been published by a regulatory body or other authority relating to the external expert's competence.
- Whether the external expert's work is subject to legal and regulatory requirements or professional standards issued by a recognised body, or follows generally accepted principles or practices in the external expert's field or area of expertise.
- Whether the external expert can explain their work, including the inputs, assumptions and methodologies used.
- Whether the external expert has a history of performing similar work.

R290.7 The assurance practitioner shall evaluate whether the external expert has the necessary capabilities for the assurance practitioner's purpose.

290.7 A1 Capabilities relates to the ability of the external expert to exercise their competence in the circumstances of the professional activity.

290.7 A2 Factors that are relevant in evaluating whether the external expert has the necessary capabilities include:

- The resources available to the external expert.
- Whether the external expert has sufficient time to perform the work.

R290.8 The assurance practitioner shall evaluate whether the external expert has the necessary objectivity for the assurance practitioner's purpose.

290.8 A1 Objectivity relates to the possible effects that bias, conflict of interest, or the undue influence of, or undue reliance on, others might have on the professional or business judgement of the external expert.

290.8 A2 Factors that are relevant in identifying threats to the objectivity of the external expert for the period during which the external expert is performing the work include:

- Whether the external expert or their employing organisation has an actual or potential conflict of interest or other interests in relation to the work the external expert is performing at the entity.
- Whether the assurance practitioner is aware of any potential bias that might affect the external expert's work.
- Whether the external expert is charging a contingent fee, and if so, the basis for such fee.
- Whether the external expert will evaluate or rely on any previous judgements made or activities performed by the external expert or their employing organisation in relation to the subject matter of the external expert's work.

290.8 A3 The external expert's employing organisation is the entity that directly employs the expert, regardless of the legal form of the employment, and does not extend to other entities that might control, or are otherwise related to, the employing organisation.

290.8 A4 Other interests that might impact the level of threat to an external expert's objectivity include significant financial interests such as those arising from compensation, fees or incentive arrangements linked to financial and non-financial information and decision-making.

290.8 A5 Examples of previous judgements made or activities performed by an external expert or their employing organisation that might create a self-review threat to the external expert's objectivity include:

- Having advised the entity on the matter for which the external expert is performing the work.
- Having produced data or other information, or having designed, developed, implemented, operated, maintained, monitored, updated or upgraded an IT system, for the entity which is then used by the external expert in performing the work or is the subject of that work.

290.8 A6 Factors that are relevant in evaluating the level of such threats to the external expert's objectivity include:

- The existence of conditions, policies and procedures established by the external expert's profession, legislation, regulation, or the external expert's employing organisation, including whether the external expert is subject to ethics standards issued by a body responsible for issuing such standards in the external expert's field of expertise.
- The nature and scope of the external expert's work.
- The existence and adequacy of any quality management system employed by the external expert.

290.8 A7 Examples of actions that might be safeguards to address threats to an external expert's objectivity include:

- Consulting with qualified personnel, or a professional outside the assurance practitioner's employing organisation, who have the necessary expertise to evaluate the external expert's work for the intended purpose.
- Requesting the external expert to take steps to address a conflict of interest, for example, implementing measures to segregate the work from such conflict of interest.
- Restructuring or reassigning the part of the external expert's work giving rise to the threat to another external expert.

Sources of Information

290.9 A1 Information about the external expert's competence, capabilities and objectivity might be obtained from various sources, including:

- Personal association or experience with previous work undertaken by the external expert.
- Enquiry of others within or outside the assurance practitioner's employing organisation who are familiar with the external expert's work.

- Discussion with the external expert about their background, including their field of expertise and business activities.
- Enquiry of the external expert's professional body or industry association.
- Articles, papers or books written by the external expert and published by a recognised publisher or in a recognised journal or other medium.
- Published records, such as legal proceedings involving the external expert.
- Enquiry of management of the assurance practitioner's employing organisation and, if different, the entity at which the external expert is performing the work regarding any interests and relationships between the external expert and the employing organisation or the entity.
- The internal controls, policies and procedures of the assurance practitioner's employing organisation.

Additional Considerations when Evaluating Competence, Capabilities and Objectivity

290.10. A1 Evaluating whether an external expert has the necessary competence, capabilities and objectivity for the assurance practitioner's purpose involves exercising professional judgement and using the reasonable and informed third party test.

290.10 A2 An assurance practitioner might face pressure to breach the fundamental principles if the assurance practitioner encounters difficulties in concluding, or is unable to conclude, that the external expert has the necessary competence, capabilities and objectivity for the assurance practitioner's purpose when the external expert has already performed a significant portion of their work. In such circumstances, Section 270 is relevant in considering how to address such pressure.

Consideration of New Information or Changes in Facts or Circumstances

R290.11 The assurance practitioner shall re-evaluate whether the external expert has the necessary competence, capabilities and objectivity for the assurance practitioner's purpose when new information or changes in facts and circumstances arise.

Concluding on the External Expert's Competence, Capabilities and Objectivity

R290.12 The assurance practitioner shall not use the work of the external expert if the assurance practitioner:

(a) Is unable to determine whether the external expert has the necessary competence or capabilities, or is objective;

(b) Determines that the external expert does not have the necessary competence or capabilities for the assurance practitioner's purpose; or

(c) Determines that there are threats to the external expert's objectivity that cannot be eliminated or reduced to an acceptable level.

290.12 A1 If an assurance practitioner uses the work of such external expert, this creates threats to the assurance practitioner's compliance with the principles of integrity, objectivity and professional competence and due care that cannot be eliminated or reduced to an acceptable level by the application of safeguards.

Potential Threats Arising from Using the Work of an External Expert

290.13 A1 Threats to compliance with the fundamental principles might still be created from using the work of an external expert even if an assurance practitioner has satisfactorily

concluded that the external expert has the necessary competence, capabilities and objectivity for the assurance practitioner's purpose.

Identifying Threats

290.14 A1 Examples of facts and circumstances that might create threats to an assurance practitioner's compliance with the fundamental principles when using an external expert's work include:

(a) Self-interest threats

- An assurance practitioner has insufficient expertise to understand and explain the external expert's conclusions and findings.
- An assurance practitioner has undue influence from, or undue reliance on, the external expert or multiple external experts when performing a professional activity.
- An assurance practitioner has insufficient time or resources to evaluate the external expert's work.

(b) Self-review threats

- An assurance practitioner uses the work of an external expert who relies on previous judgements made by the assurance practitioner and provided to the external expert for the purposes of their work.

(c) Advocacy threats

- An assurance practitioner promotes the use of an external expert who has known bias towards conclusions potentially advantaging or disadvantaging the assurance practitioner's employing organisation.

(d) Familiarity threats

- An assurance practitioner has a close personal relationship with the external expert.

(e) Intimidation threats

- An assurance practitioner feels pressure to defer to the external expert's opinion due to the external expert's perceived authority.
- An assurance practitioner feels pressure to use the work of a particular external expert in order to meet internal or external targets and expectations.

Evaluating Threats

290.15 A1 Factors that are relevant in evaluating the level of such threats include:

- The scope and purpose of the external expert's work.
- The impact of the external expert's work on the assurance practitioner's activity.
- The nature of the professional activity for which the external expert's work is intended to be used.
- The assurance practitioner's oversight relating to the use of the external expert and the external expert's work.
- The appropriateness of, and transparency over, the data, assumptions and other inputs and methods used by the external expert.

- The assurance practitioner's ability to understand and explain the external expert's work and its appropriateness for the intended purpose.
- Whether the external expert's work is subject to technical performance standards or other professional or industry generally accepted practices, or law or regulation.
- Whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.
- The consistency of the external expert's work, including the external expert's conclusions or findings, with other information.
- The availability of other evidence, including peer-reviewed academic research, to support the external expert's approach.
- Whether there is pressure being exerted by the assurance practitioner's employing organisation to accept the external expert's conclusions or findings due to the time or cost spent by the external expert in performing the work.

Addressing Threats

290.16 A1 An example of an action that might eliminate a familiarity threat is identifying a different external expert to use.

290.16 A2 Examples of actions that might be safeguards to address threats include:

- Consulting with qualified personnel, or a professional outside the assurance practitioner's employing organisation, who have the necessary expertise to evaluate the external expert's work, obtaining additional input, or challenging the appropriateness of the external expert's work for the intended purpose.
- Using another external expert to reperform the external expert's work.
- Agreeing with management of the assurance practitioner's employing organisation additional time or resources to complete the activity.

Other Matters

External Experts in Emerging Fields or Areas

290.17 A1 Expertise in emerging fields or areas might evolve depending on how laws, regulations and generally accepted practices develop. Emerging fields might also involve multiple areas of expertise. There might therefore be limited availability of external experts in emerging fields or areas.

290.17 A2 Information relating to some of the factors relevant to evaluating the competence of an external expert in paragraph 290.6 A2 might not be available in an emerging field or area. For example, there might not be public recognition of the external expert, professional standards might not have been developed, or professional bodies might not have been established in the emerging field. In such circumstances, a factor that might assist the assurance practitioner in evaluating an external expert's competence is the external expert's experience in a similar field to the emerging field, or in an established field, that provides a reasonable basis for the external expert's work in the emerging field.

Communicating with Management and Those Charged with Governance When Using the Work of an External Expert

290.18 A1 Where appropriate, the assurance practitioner is encouraged to communicate with management and those charged with governance:

- The purpose of using an external expert and the scope of the external expert's work.
- The respective roles and responsibilities of the assurance practitioner and the external expert in the performance of the professional activity.
- Any threats to the assurance practitioner's compliance with the fundamental principles created by using the external expert's work and how they have been addressed.

Documentation

290.19 A1 The assurance practitioner is encouraged to document:

- The steps taken by the assurance practitioner to evaluate the external expert's competence, capabilities and objectivity, and the resulting conclusions.
- Any significant threats identified by the assurance practitioner in using the external expert's work and the actions taken to address the threats.
- The results of any significant discussions with the external expert.

PART 3 – APPLICATION OF THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

CONTENTS

Page

SECTION 300 APPLYING THE CONCEPTUAL FRAMEWORK 72
SECTION 310 CONFLICTS OF INTEREST 79
SECTION 320 PROFESSIONAL APPOINTMENTS 84
SECTION 321 SECOND OPINIONS 88
SECTION 325 OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS 89
SECTION 330 FEES AND OTHER TYPES OF REMUNERATION 91
SECTION 340 INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY 93
SECTION 350 CUSTODY OF CLIENT ASSETS 98
SECTION 360 RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS 99
SECTION 380 TAX PLANNING SERVICES 113
SECTION 390 USING THE WORK OF AN EXTERNAL EXPERT 114

SECTION 300 APPLYING THE CONCEPTUAL FRAMEWORK

Introduction

300.1 This Part of the Code sets out requirements and application material for assurance practitioners when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by assurance practitioners, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires assurance practitioners to be alert for such facts and circumstances.

300.2 The requirements and application material that apply to assurance practitioners are set out in:

- Part 3 – *Application of the Code, Fundamental Principles and Conceptual Framework*, Sections 300 to 399, which applies to all assurance practitioners when providing assurance services.
- International Independence Standards (New Zealand) as follows:
  - Part 4A – *Independence for Audit and Review Engagements*, Sections 400 to 899, which applies to assurance practitioners when performing audit and review engagements.
  - Part 4B – Independence for Assurance Engagements Other than Audit Engagements, Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5, Sections 900 to 999, which applies to assurance practitioners when performing assurance engagements other than audit engagements, review engagements, or sustainability assurance engagements that are within the scope of the International Independence Standards (New Zealand) in Part 5.
- Part 5 – *International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand)*, Sections 5100 to 5600, which applies to assurance practitioners when performing sustainability assurance engagements.

300.3 In this Part, the term "assurance practitioner" refers to individual assurance practitioners and their firms.

Requirements and Application Material

General

R300.4 An assurance practitioner shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

R300.5 When dealing with an ethics issue, the assurance practitioner shall consider the context in which the issue has arisen or might arise. Where an individual who is an assurance practitioner is performing professional activities pursuant to the assurance practitioner's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

300.5 A1 Examples of situations in which the provisions in Part 2 apply to an assurance practitioner include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the assurance practitioner might benefit

financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.

- Preparing or presenting financial or non-financial, including sustainability information for the assurance practitioner's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

NZ300.5A1.1 The *International Independence Standards (New Zealand)* prohibit the firm or a network firm from providing accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion or a conclusion or financial information which forms the basis of such financial statements[2], except in limited circumstances as described in paragraph R601.5. Accordingly, the situation described in the second bullet point of paragraph 300.5 A1 in respect of an assurance practitioner's assurance client would not be permitted.

300.5 A2 The more senior the position of an assurance practitioner, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, assurance practitioners are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the assurance practitioner or the firm has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for an assurance practitioner when undertaking an assurance service:

(a) Self-interest Threats

- An assurance practitioner having a direct financial interest in a client.
- An assurance practitioner quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the assurance service in

[2] See Section 601, paragraphs R601.5 and R601.6

accordance with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board for that price.

- An assurance practitioner having a close business relationship with a client.
- An assurance practitioner having access to confidential information that might be used for personal gain.
- An assurance practitioner discovering a significant error when evaluating the results of a previous assurance service performed by a member of the assurance practitioner's firm.
- An assurance practitioner having incentives linked to the outcome of a professional service to prepare sustainability information.

(b) Self-review Threats

- An assurance practitioner issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- An assurance practitioner having contributed to the preparation of the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- An assurance practitioner promoting the interests of, or shares in, a client.
- An assurance practitioner acting as an advocate on behalf of a client in litigation or disputes with third parties.
- An assurance practitioner lobbying in favour of legislation on behalf of a client.
- An assurance practitioner promoting a particular sustainability-related initiative, product or service on behalf of a client.

(d) Familiarity Threats

- An assurance practitioner having a close or immediate family member who is a director or officer of the client.
- A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
- An audit team member having a long association with the audit client.
- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

(e) Intimidation Threats

- An assurance practitioner being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- An assurance practitioner feeling pressured to agree with the judgement of a client because the client has more expertise on the matter in question.

- An assurance practitioner being informed that a planned promotion will not occur unless the assurance practitioner agrees with an inappropriate accounting treatment or sustainability-related analysis.
- An assurance practitioner having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Identifying Threats Associated with the Use of Technology

300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for an assurance practitioner when undertaking a professional activity:

- Self-interest Threats
  - The data available might not be sufficient for the effective use of the technology.
  - The technology might not be appropriate for the purpose for which it is to be used.
  - The assurance practitioner might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.

  (Ref: Para. 230.2).
- Self-review Threats
  - The technology was designed or developed using the knowledge, expertise or judgement of the assurance practitioner or the firm.

Evaluating Threats

300.7 A1 The conditions, policies and procedures described in paragraph 120.6 A1 and 120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level. Such conditions, policies and procedures might relate to:

(a) The client and its operating environment; and

(b) The firm and its operating environment.

300.7 A2 The assurance practitioner's evaluation of the level of a threat is also impacted by the nature and scope of the assurance service.

The Client and its Operating Environment

300.7 A3 The assurance practitioner's evaluation of the level of a threat might be impacted by whether the client is:

(a) An audit client or a sustainability assurance client for whom the assurance practitioner performs a sustainability assurance engagement within the scope of the *International Independence Standards (New Zealand)* in Part 5, and whether that client is a public interest entity;

(b) An assurance client that is not an audit client or for whom the assurance practitioner does not perform a sustainability assurance engagement within the scope of the *International Independence Standards (New Zealand)* in Part 5; or

(c) A client to whom non-assurance services are provided.

For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the audit.

300.7 A4 The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, an assurance practitioner's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

300.7 A4a When preparing or presenting sustainability information, the assurance practitioner's evaluation of the level of a threat might be impacted by the quantitative and qualitative characteristics of a client's value chain. For example, the evaluation of a threat to compliance with the principle of professional competence and due care might be impacted if the sustainability information the assurance practitioner is preparing or presenting comes from multiple suppliers that are geographically dispersed or is prepared in accordance with different reporting frameworks.

The Firm and its Operating Environment

300.7 A5 An assurance practitioner's evaluation of the level of a threat might be impacted by the work environment within the assurance practitioner's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.
- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

300.7 A6 The assurance practitioner's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the assurance practitioner's firm and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.

- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees, so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

Consideration of New Information or Changes in Facts and Circumstances

300.7 A7 New information or changes in facts and circumstances might:

(a) Impact the level of a threat; or

(b) Affect the assurance practitioner's conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the assurance practitioner re-evaluate and address the threats accordingly. (Ref: Paras. R120.9 and R120.10).

300.7 A8 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of an assurance service is expanded.
- When the client becomes a FMC reporting entity considered to have a higher level of public accountability or acquires another business unit.
- When the firm merges with another firm.
- When the assurance practitioner is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the assurance practitioner's personal or immediate family relationships.

Addressing Threats

300.8 A1 Paragraphs R120.10 to 120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

Examples of Safeguards

300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team review the work performed or advise as necessary might address a self-review threat.
- Using different partners and teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.

- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

300.8 A3 The remaining sections of Part 3 and *International Independence Standards (New Zealand)* describe certain threats that might arise during the course of performing assurance services and include examples of actions that might address threats.

Appropriate Reviewer

300.8 A4 An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be an assurance practitioner.

Communicating with Those Charged with Governance

R300.9 When communicating with those charged with governance in accordance with the Code, an assurance practitioner shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the assurance practitioner communicates with a subgroup of those charged with governance, the assurance practitioner shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

300.9 A1 In determining with whom to communicate, an assurance practitioner might consider:

(a) The nature and importance of the circumstances; and

(b) The matter to be communicated.

300.9 A2 Examples of a subgroup of those charged with governance include an audit committee, another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.

R300.10 If an assurance practitioner communicates with individuals who have management responsibilities as well as governance responsibilities, the assurance practitioner shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the assurance practitioner would otherwise communicate.

300.10 A1 In some circumstances, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the assurance practitioner has satisfied the requirement to communicate with those charged with governance.

SECTION 310 CONFLICTS OF INTEREST

Introduction

310.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

310.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:

(a) An assurance practitioner provides a professional service related to a particular matter for two or more assurance clients whose interests with respect to that matter are in conflict; or

(b) The interests of an assurance practitioner with respect to a particular matter and the interests of the assurance client for whom the assurance practitioner provides a professional service related to that matter are in conflict.

310.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When an assurance practitioner provides an audit, review or other assurance service, independence is also required in accordance with *International Independence Standards (New Zealand)*.

Requirements and Application Material

General

R310.4 An assurance practitioner shall not allow a conflict of interest to compromise professional or business judgement.

310.4 A1 Examples of circumstances that might create a conflict of interest include:

- Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that might be relevant to the transaction.
- Providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
- Providing services to a seller and a buyer in relation to the same transaction.
- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.
- Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership.
- In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.
- Advising a client to invest in a business in which, for example, the spouse of the assurance practitioner has a financial interest.
- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
- Advising a client on acquiring a business which the firm is also interested in acquiring.

- Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.
- Preparing or presenting sustainability information for a client while also being in a leadership position at a sustainability advocacy group that publicly challenges the client's sustainability targets or practices.

Conflict Identification

General

R310.5 Before accepting a new client relationship, engagement, or business relationship, an assurance practitioner shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

(a) The nature of the relevant interests and relationships between the parties involved; and

(b) The service and its implication for relevant parties.

310.5 A1 An effective conflict identification process assists an assurance practitioner when taking reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. Such a process includes considering matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the assurance practitioner being able to address threats created by the conflict of interest.

310.5 A2 An effective process to identify actual or potential conflicts of interest will take into account factors such as:

- The nature of the assurance services provided.
- The size of the firm.
- The size and nature of the client base.
- The structure of the firm, for example, the number and geographic location of offices.

310.5 A3 More information on client acceptance is set out in Section 320, *Professional Appointments*.

Changes in Circumstances

R310.6 An assurance practitioner shall remain alert to changes over time in the nature of services, interests and relationships that might create a conflict of interest while performing an engagement.

310.6 A1 The nature of services, interests and relationships might change during the engagement. This is particularly true when an assurance practitioner is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the assurance practitioner initially might not be involved in a dispute.

Network Firms

R310.7 If the firm is a member of a network, an assurance practitioner shall consider conflicts of interest that the assurance practitioner has reason to believe might exist or arise due to interests and relationships of a network firm.

310.7 A1 Factors to consider when identifying interests and relationships involving a network firm include:

- The nature of the assurance services provided.
- The clients served by the network.
- The geographic locations of all relevant parties.

Threats Created by Conflicts of Interest

310.8 A1 In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

310.8 A2 Factors that are relevant in evaluating the level of a threat created by a conflict of interest include measures that prevent unauthorised disclosure of confidential information when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. These measures include:

- The existence of separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas.
- Policies and procedures to limit access to client files.
- Confidentiality agreements signed by personnel and partners of the firm.
- Separation of confidential information physically and electronically.
- Specific and dedicated training and communication.

310.8 A3 Examples of actions that might be safeguards to address threats created by a conflict of interest include:

- Having separate teams who are provided with clear policies and procedures on maintaining confidentiality.
- Having an appropriate reviewer, who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgements and conclusions are appropriate.

Disclosure and Consent

General

R310.9 An assurance practitioner shall exercise professional judgement to determine whether the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary when addressing the threat created by the conflict of interest.

NZ R310.9.1 Where an assurance practitioner has a conflict of interest but can apply safeguards to eliminate the threat or reduce it to an acceptable level, the assurance practitioner shall disclose, in writing, the nature of the conflict of interest and related safeguards, if any, to all clients or potential clients affected by the conflict.

NZ R310.9.2 When safeguards are required to reduce the threat to an acceptable level, the assurance practitioner shall obtain, in writing, the client's consent to the assurance practitioner performing the assurance services.

310.9 A1 Factors to consider when determining whether specific disclosure and explicit consent are necessary include:

- The circumstances creating the conflict of interest.
- The parties that might be affected.
- The nature of the issues that might arise.
- The potential for the particular matter to develop in an unexpected manner.

310.9 A2 Disclosure and consent might take different forms, for example:

- General disclosure to clients of circumstances where, as is common commercial practice, the assurance practitioner does not provide services exclusively to any one client (for example, in a particular service and market sector). This enables the client to provide general consent accordingly. For example, an assurance practitioner might make general disclosure in the standard terms and conditions for the engagement.
- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances and a comprehensive explanation of any planned safeguards and the risks involved.
- Consent might be implied by clients' conduct in circumstances where the assurance practitioner has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

310.9 A3 *[Deleted by the NZAuASB. Refer NZ R310.9.1 and NZ R310.9.2]*

310.9 A4 *[Deleted by the NZAuASB. Refer NZ R310.9.1 and NZ R310.9.2]*

When Explicit Consent is Refused

R310.10 If an assurance practitioner has determined that explicit consent is necessary in accordance with paragraph R310.9 and the client has refused to provide consent, the assurance practitioner shall either:

(a) End or decline to perform professional services that would result in the conflict of interest; or

(b) End relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

Confidentiality

General

R310.11 An assurance practitioner shall remain alert to the principle of confidentiality, including when making disclosures or sharing information within the firm or network and seeking guidance from third parties.

310.11 A1 Subsection 114 sets out requirements and application material relevant to situations that might create a threat to compliance with the principle of confidentiality.

When Disclosure to Obtain Consent would Breach Confidentiality

R310.12 [Deleted by the NZAuASB. Refer to NZ R310.12.1]

NZ R310.12.1 In those circumstances where adequate disclosure is not possible by reason of constraints of confidentiality the assurance practitioner shall end or decline the relevant assurance engagement.

310.12 A1 *[Deleted by the NZAuASB. Refer to NZ R310.12.1]*

Documentation

R310.13 *[Deleted by the NZAuASB.]*

SECTION 320 PROFESSIONAL APPOINTMENTS

Introduction

320.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

320.2 Acceptance of a new client relationship or changes in an existing engagement might create a threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Client and Engagement Acceptance

General

320.3 A1 Threats to compliance with the principles of integrity or professional behaviour might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial reporting or non-financial, including sustainability, practices or other unethical behaviour.

320.3 A2 Factors that are relevant in evaluating the level of such a threat include:

- Knowledge and understanding of the client, its owners, management and those charged with governance and business activities.
- The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.

320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the team does not possess, or cannot acquire, the competencies to perform the professional services.

320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
  - The nature of the client's business;
  - The complexity of its operations;
  - The quantitative and qualitative characteristics of the client's value chain, where applicable;
  - The requirements of the engagement; and
  - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as Professional and Ethical Standard 3, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

- The level of fees and the extent to which they have regard to the resources required, taking into account the assurance practitioner's commercial and market priorities.

320.3 A5 Examples of actions that might be safeguards to address a self-interest threat include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

Changes in a Professional Appointment

General

R320.4 An assurance practitioner shall determine whether there are any reasons for not accepting an engagement when the assurance practitioner:

(a) Is asked by a potential client to replace another assurance practitioner;

(b) Considers tendering for an engagement held by another assurance practitioner; or

(c) Considers undertaking work that is complementary or additional to that of another assurance practitioner.

320.4 A1 There might be reasons for not accepting an engagement. One such reason might be if a threat created by the facts and circumstances cannot be addressed by applying safeguards. For example, there might be a self-interest threat to compliance with the principle of professional competence and due care if an assurance practitioner accepts the engagement before knowing all the relevant facts.

320.4 A2 If an assurance practitioner is asked to undertake work that is complementary or additional to the work of an existing or predecessor assurance practitioner, a self-interest threat to compliance with the principle of professional competence and due care might be created, for example, as a result of incomplete information.

320.4 A3 A factor that is relevant in evaluating the level of such a threat is whether tenders state that, before accepting the engagement, contact with the existing or predecessor assurance practitioner will be requested. This contact gives the proposed assurance practitioner the opportunity to enquire whether there are any reasons why the engagement should not be accepted.

320.4 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Asking the existing or predecessor assurance practitioner to provide any known information of which, in the existing or predecessor assurance practitioner's opinion, the proposed assurance practitioner needs to be aware before deciding whether to accept the engagement. For example, enquiry might reveal previously undisclosed pertinent facts and might indicate disagreements with the existing or predecessor assurance practitioner that might influence the decision to accept the appointment.
- Obtaining information from other sources such as through enquiries of third parties or background investigations regarding senior management or those charged with governance of the client.

Communicating with the Existing or Predecessor Assurance Practitioner

320.5 A1 A proposed assurance practitioner will usually need the client's permission, preferably in writing, to initiate discussions with the existing or predecessor assurance practitioner.

R320.6 If unable to communicate with the existing or predecessor assurance practitioner, the proposed assurance practitioner shall take other reasonable steps to obtain information about any possible threats.

Communicating with the Proposed Assurance Practitioner

R320.7 When an existing or predecessor assurance practitioner is asked to respond to a communication from a proposed assurance practitioner, the existing or predecessor assurance practitioner shall:

(a) Comply with relevant laws and regulations governing the request; and

(b) Provide any information honestly and unambiguously.

320.7 A1 An existing or predecessor assurance practitioner is bound by confidentiality. Whether the existing or predecessor assurance practitioner is permitted or required to discuss the affairs of a client with a proposed assurance practitioner will depend on the nature of the engagement and:

(a) Whether the existing or predecessor assurance practitioner has permission from the client for the discussion; and

(b) The legal and ethics requirements relating to such communications and disclosure, which might vary by jurisdiction.

320.7 A2 Circumstances where an assurance practitioner is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 114.1 A1 of the Code.

Changes in Audit or Review Appointments

R320.8 In the case of an audit or review of financial statements, an assurance practitioner shall request the existing or predecessor assurance practitioner to provide known information regarding any facts or other information of which, in the existing or predecessor assurance practitioner's opinion, the proposed assurance practitioner needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving non-compliance or suspected non-compliance with laws and regulations set out in paragraphs R360.21 and R360.22:

(a) If the client consents to the existing or predecessor assurance practitioner disclosing any such facts or other information, the existing or predecessor assurance practitioner shall provide the information honestly and unambiguously; and

(b) If the client fails or refuses to grant the existing or predecessor assurance practitioner permission to discuss the client's affairs with the proposed assurance practitioner, the existing or predecessor assurance practitioner shall disclose this fact to the proposed assurance practitioner, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

Client and Engagement Continuance

R320.9 For a recurring client engagement, an assurance practitioner shall periodically review whether to continue with the engagement.

320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the assurance practitioner to decline the engagement. For example, a self-interest threat to compliance

with the principle of integrity might be created by improper earnings management, balance sheet valuations or sustainability materiality assessments.

Using the Work of an Expert

R320.10 When an assurance practitioner intends to use the work of an expert in the course of undertaking a professional activity, the assurance practitioner shall determine whether the use is appropriate for the intended purpose.

320.10 A1 For the purposes of this section, the work of an external expert is excluded. When an assurance practitioner intends to use the work of an external expert, the requirements and application material set out in Section 390 apply.

320.10 A2 Factors to consider when an assurance practitioner intends to use the work of an expert include:

- The reputation and expertise of, and the resources available to, the expert.
- Whether the expert is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the expert.

Using the Output of Technology

R320.11 When an assurance practitioner intends to use the output of technology in the course of undertaking a professional activity, the assurance practitioner shall determine whether the use is appropriate for the intended purpose.

320.11 A1 Factors to consider when an assurance practitioner intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the assurance practitioner has the ability, or access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The firm's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorising user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Other Considerations

320.12 A1 When an assurance practitioner is considering using the work of experts or the output of technology, a consideration is whether the assurance practitioner is in a position within the firm to obtain information in relation to the factors necessary to determine whether such use is appropriate.

SECTION 321 SECOND OPINIONS

[Deleted by the NZAuASB]

SECTION 325 OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

Introduction

325.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

325.2 Appointing an engagement quality reviewer who has involvement in the work being reviewed or close relationships with those responsible for performing that work might create threats to compliance with the principle of objectivity.

325.3 This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an engagement quality reviewer.

325.4 An engagement quality reviewer is also an example of an appropriate reviewer as described in paragraph 300.8 A4. Therefore, the application material in this section might apply in circumstances where an assurance practitioner appoints an appropriate reviewer to review work performed as a safeguard to address identified threats.

Application Material

General

325.5 A1 Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. Professional and Ethical Standard 3[3] establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance with Professional and Ethical Standard 4[4].

325.5 A2 An engagement quality reviewer is a partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Identifying Threats

325.6 A1 The following are examples of circumstances where threats to the objectivity of an assurance practitioner appointed as an engagement quality reviewer might be created:

(a) Self-interest threat

- Two engagement partners each serving as an engagement quality reviewer for the other's engagement.

(b) Self-review threat

- An assurance practitioner serving as an engagement quality reviewer on an audit engagement after previously serving as the engagement partner.

(c) Familiarity threat

- An assurance practitioner as an engagement quality reviewer has a close relationship with or is an immediate family member of another individual who is involved in the engagement.

(d) Intimidation threat

[3] Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance or Related Services Engagements*

[4] Professional and Ethical Standard 4, *Engagement Quality Reviews*

- An assurance practitioner serving as an engagement quality reviewer for an engagement has a direct reporting line to the partner responsible for the engagement.

Evaluating Threats

325.7 A1 Factors that are relevant in evaluating the level of threats to the objectivity of an individual appointed as an engagement quality reviewer include:

- The role and seniority of the individual.
- The nature of the individual's relationship with others involved on the engagement.
- The length of time the individual was previously involved with the engagement and the individual's role.
- When the individual was last involved in the engagement prior to being appointed as engagement quality reviewer and any subsequent relevant changes to the circumstances of the engagement.
- The nature and complexity of issues that required significant judgement from the individual in any previous involvement in the engagement.

Addressing Threats

325.8 A1 An example of an action that might eliminate an intimidation threat is reassigning reporting responsibilities within the firm.

325.8 A2 An example of an action that might be a safeguard to address a self-review threat is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an engagement quality reviewer.

Cooling-off Period

325.8 A3 Professional and Ethical Standard 4 requires the firm to establish policies or procedures that specify, as a condition for eligibility, a cooling-off period of two years before the engagement partner can assume the role of engagement quality reviewer. This serves to enable compliance with the principle of objectivity and the consistent performance of quality engagements.

325.8 A4 The cooling-off period required by Professional and Ethical Standard 4 is distinct from, and does not modify, the partner rotation requirements in Section 540, which are designed to address threats to independence created by long association with an audit client.

SECTION 330 FEES AND OTHER TYPES OF REMUNERATION

Introduction

330.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

330.2 The level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

Level of Fees

330.3 A1 The level of fees quoted might impact an assurance practitioner's ability to perform professional services in accordance with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

330.3 A2 An assurance practitioner might quote whatever fee is considered appropriate. Quoting a fee lower than another assurance practitioner is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

330.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are charged and which professional services the quoted fee covers.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Adjusting the level of fees or the scope of the engagement.
- Having an appropriate reviewer review the work performed.

Contingent Fees

330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.

330.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis or metrics for determining the fee.

- Disclosure to intended users of the work performed by the assurance practitioner and the basis of remuneration.
- Quality management policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

330.4 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the assurance practitioner.
- Obtaining an advance written agreement with the client on the basis of remuneration.

330.4 A4 Requirements and application material related to contingent fees for services provided to audit or review clients and other assurance clients are set out in *International Independence Standards (New Zealand)*.

Referral Fees or Commissions

NZ R330.5 An assurance practitioner shall not accept or pay referral fees, commissions or other similar benefits in connection with an assurance engagement.

330.5 A1 *[Deleted by the NZAuASB. Refer to NZ R330.5 and NZ 330.5 A1.1]*

NZ 330.5 A1.1 The receipt or payment of referral fees, commissions or other similar benefits in connection with an assurance engagement creates a threat to independence that no safeguards could reduce to an acceptable level.

330.5 A2 *[Deleted by the NZAuASB. Refer to NZ R330.5 and NZ 330.5 A1.1]*

Purchase or Sale of a Firm

330.6 A1 An assurance practitioner may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not referral fees or commissions for the purposes of this section.

SECTION 340 INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Introduction

340.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

340.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behaviour.

340.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when performing professional services that does not constitute non-compliance with laws and regulations. This section also requires an assurance practitioner to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and Application Material

General

340.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour. Inducements can range from minor acts of hospitality between assurance practitioners and existing or prospective clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:

- Gifts.
- Hospitality.
- Entertainment.
- Political or charitable donations.
- Appeals to friendship and loyalty.
- Employment or other commercial opportunities.
- Preferential treatment, rights or privileges.

Inducements Prohibited by Laws and Regulations

R340.5 In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The assurance practitioner shall obtain an understanding of relevant laws and regulations and comply with them when the assurance practitioner encounters such circumstances.

Inducements Not Prohibited by Laws and Regulations

340.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

Inducements with Intent to Improperly Influence Behaviour

R340.7 An assurance practitioner shall not offer, or encourage others to offer, any inducement that is made, or which the assurance practitioner considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

R340.8 An assurance practitioner shall not accept, or encourage others to accept, any inducement that the assurance practitioner concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

340.9 A1 An inducement is considered as improperly influencing an individual's behaviour if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for an assurance practitioner in considering what constitutes unethical behaviour on the part of the assurance practitioner and, if necessary by analogy, other individuals.

340.9 A2 A breach of the fundamental principle of integrity arises when an assurance practitioner offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behaviour of the recipient or of another individual.

340.9 A3 The determination of whether there is actual or perceived intent to improperly influence behaviour requires the exercise of professional judgment. Relevant factors to consider might include:

- The nature, frequency, value and cumulative effect of the inducement.
- Timing of when the inducement is offered relative to any action or decision that it might influence.
- Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
- Whether the inducement is an ancillary part of a professional service, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the firm, such as other suppliers to the client.
- The roles and positions of the individuals at the firm or the client offering or being offered the inducement.
- Whether the assurance practitioner knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the client.
- The degree of transparency with which the inducement is offered.
- Whether the inducement was required or requested by the recipient.
- The known previous behaviour or reputation of the offeror.

Consideration of Further Actions

340.10 A1 If the assurance practitioner becomes aware of an inducement offered with actual or perceived intent to improperly influence behaviour, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R340.7 and R340.8 are met.

340.10 A2 Examples of actions that might be safeguards to address such threats include:

- Informing senior management of the firm or those charged with governance of the client regarding the offer.
- Amending or terminating the business relationship with the client.

Inducements with No Intent to Improperly Influence Behaviour

340.11 A1 The requirements and application material set out in the conceptual framework apply when an assurance practitioner has concluded there is no actual or perceived intent to improperly influence the behaviour of the recipient or of another individual.

340.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

340.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the assurance practitioner has concluded there is no actual or perceived intent to improperly influence behaviour include:

- Self-interest threats
    - An assurance practitioner is offered hospitality from the prospective acquirer of a client while providing corporate finance services to the client.
- Familiarity threats
    - An assurance practitioner regularly takes an existing or prospective client to sporting events.
- Intimidation threats
    - An assurance practitioner accepts hospitality from a client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

340.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 340.9 A3 for determining intent.

340.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.
- Transferring responsibility for the provision of any professional services to the client to another individual who the assurance practitioner has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.

340.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management of the firm or of the client about offering or accepting an inducement.
- Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance or maintained by the client.
- Having an appropriate reviewer, who is not otherwise involved in providing the professional service, review any work performed or decisions made by the assurance practitioner with respect to the client from which the assurance practitioner accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.

- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

Immediate or Close Family Members

R340.12 An assurance practitioner shall remain alert to potential threats to the assurance practitioner's compliance with the fundamental principles created by the offering of an inducement:

(a) By an immediate or close family member of the assurance practitioner to an existing or prospective client of the assurance practitioner.

(b) To an immediate or close family member of the assurance practitioner by an existing or prospective client of the assurance practitioner.

R340.13 Where the assurance practitioner becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behaviour of the assurance practitioner or of an existing or prospective client of the assurance practitioner, or considers a reasonable and informed third party would be likely to conclude such intent exists, the assurance practitioner shall advise the immediate or close family member not to offer or accept the inducement.

340.13 A1 The factors set out in paragraph 340.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behaviour of the assurance practitioner or of the existing or prospective client. Another factor that is relevant is the nature or closeness of the relationship, between:

(a) The assurance practitioner and the immediate or close family member;

(b) The immediate or close family member and the existing or prospective client; and

(c) The assurance practitioner and the existing or prospective client.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the assurance practitioner by a client for whom the assurance practitioner is providing a business valuation for a prospective sale might indicate such intent.

340.13 A2 The application material in paragraph 340.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behaviour of the assurance practitioner, or of the existing or prospective client even if the immediate or close family member has followed the advice given pursuant to paragraph R340.13.

Application of the Conceptual Framework

340.14 A1 Where the assurance practitioner becomes aware of an inducement offered in the circumstances addressed in paragraph R340.12, threats to compliance with the fundamental principles might be created where:

(a) The immediate or close family member offers or accepts the inducement contrary to the advice of the assurance practitioner pursuant to paragraph R340.13; or

(b) The assurance practitioner does not have reason to believe an actual or perceived intent to improperly influence the behaviour of the assurance practitioner or of the existing or prospective client exists.

340.14 A2 The application material in paragraphs 340.11 A1 to 340.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 340.13 A1.

Other Considerations

340.15 A1 If an assurance practitioner encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by a client or individuals working for or under the direction of the client, the requirements and application material in Section 360 apply.

340.15 A2 If a firm, network firm or an audit or review team member is being offered gifts or hospitality from an audit or review client, the requirement and application material set out in Section 420 apply.

340.15 A3 If a firm or an assurance team member is being offered gifts or hospitality from an assurance client, the requirement and application material set out in Section 906 apply.

SECTION 350 CUSTODY OF CLIENT ASSETS

Introduction

350.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

350.2 Holding client assets creates a self-interest or other threat to compliance with the principles of professional behaviour and objectivity. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Before Taking Custody

R350.3 An assurance practitioner shall not assume custody of client money or other assets unless permitted to do so by law and in accordance with any conditions under which such custody may be taken.

R350.4 As part of client and engagement acceptance procedures related to assuming custody of client money or assets, an assurance practitioner shall:

(a) Make enquiries about the source of the assets; and

(b) Consider related legal and regulatory obligations.

350.4 A1 Enquiries about the source of client assets might reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such circumstances, a threat would be created and the provisions of Section 360 would apply.

After Taking Custody

R350.5 An assurance practitioner entrusted with money or other assets belonging to others shall:

(a) Comply with the laws and regulations relevant to holding and accounting for the assets;

(b) Keep the assets separately from personal or firm assets;

(c) Use the assets only for the purpose for which they are intended; and

(d) Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to that accounting.

SECTION 360 RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

360.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when an assurance practitioner becomes aware of non-compliance or suspected non-compliance with laws and regulations.

360.3 An assurance practitioner might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a client. This section guides the assurance practitioner in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:

(a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the client's financial statements or sustainability information; and

(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Assurance Practitioner in Relation to Non-compliance with Laws and Regulations

360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the assurance practitioner are:

(a) To comply with the principles of integrity and professional behaviour;

(b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:

(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or

(ii) Deter the commission of the non-compliance where it has not yet occurred; and

(c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

360.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

(a) A client;

(b) Those charged with governance of a client;

(c) Management of a client; or

(d) Other individuals working for or under the direction of a client.

360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labour conditions and rights of employees.
- Consumer rights.

360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R360.6 In some cases, there are legal or regulatory provisions governing how assurance practitioners should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the assurance practitioner shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

(a) Any requirement to report the matter to an appropriate authority; and

(b) Any prohibition on alerting the client.

360.6 A1 A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.

360.7 A1 This section applies regardless of the nature of the client, including whether or not it is a public interest entity.

360.7 A2 An assurance practitioner who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the client, its stakeholders and the general public.

360.7 A3 This section does not address:

(a) Personal misconduct unrelated to the business activities of the client; and

(b) Non-compliance by parties other than those specified in paragraph 360.5 A1. This includes, for example, circumstances where an assurance practitioner has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third-party.

The assurance practitioner might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

Responsibilities of Management and Those Charged with Governance

360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

(a) The client;

(b) An individual charged with governance of the entity;

(c) A member of management; or

(d) Other individuals working for or under the direction of the client.

Responsibilities of All Assurance Practitioners

R360.9 Where an assurance practitioner becomes aware of a matter to which this section applies, the steps that the assurance practitioner takes to comply with this section shall be taken on a timely basis. In taking timely steps, the assurance practitioner shall have regard to the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.

Audits and Reviews of Financial Statements

Obtaining an Understanding of the Matter

R360.10 *[Amended by the NZAuASB]*

NZ R360.10.1 If an assurance practitioner engaged to perform an audit or review of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the assurance practitioner shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

360.10 A1 The assurance practitioner might become aware of the non-compliance or suspected non-compliance in the course of performing the engagement or through information provided by other parties.

360.10 A2 The assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgement. However, the assurance practitioner is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

360.10 A3 Depending on the nature and significance of the matter, the assurance practitioner might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

R360.11 If the assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the assurance practitioner shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.

360.11 A1 The purpose of the discussion is to clarify the assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

360.11 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgement. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

360.11 A3 The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the context of a group, the appropriate level might be management at an entity that controls the client.

360.11 A4 The assurance practitioner might also consider discussing the matter with internal auditors, where applicable.

R360.12 If the assurance practitioner believes that management is involved in the non-compliance or suspected non-compliance, the assurance practitioner shall discuss the matter with those charged with governance.

Addressing the Matter

R360.13 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the assurance practitioner shall advise them to take appropriate and timely actions, if they have not already done so, to:

(a) Rectify, remediate or mitigate the consequences of the non-compliance;

(b) Deter the commission of the non-compliance where it has not yet occurred; or

(c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

R360.14 The assurance practitioner shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance.

360.14 A1 If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the assurance practitioner might suggest appropriate sources of information or recommend that they obtain legal advice.

R360.15 *[Amended by the NZAuASB]*

NZ R360.15.1 The assurance practitioner shall comply with applicable:

(a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and

(b) Requirements under auditing and review engagement standards, including those relating to:

- Identifying and responding to non-compliance, including fraud.

- Communicating with those charged with governance.
- Considering the implications of the non-compliance or suspected non-compliance for the auditor's report or review report.

360.15 A1 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

Communication with Respect to Groups

R360.16 *[Amended by the NZAuASB]*

NZ R360.16.1 Where an assurance practitioner becomes aware of non-compliance or suspected non-compliance in either of the following two situations in the context of a group, the assurance practitioner shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

(a) The assurance practitioner performs audit or review work related to a component for purposes of the group audit or review; or

(b) The assurance practitioner is engaged to perform an audit or review of the financial statements of a legal entity or business unit that is part of a group for purposes other than the group audit or review, for example, a statutory audit.

The communication to the group engagement partner shall be in addition to responding to the matter in accordance with the provisions of this section.

360.16 A1 *[Amended by the NZAuASB]*

NZ 360.16 A1 The purpose of the communication is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit or review, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph NZ R360.16.1 applies regardless of whether the group engagement partner's firm or network is the same as or different from the assurance practitioner's firm or network.

R360.17 *[Amended by the NZAuASB]*

NZ R360.17.1 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of a group audit or review, the group engagement partner shall consider whether the matter might be relevant to:

(a) One or more components subject to audit or review work for purposes of the group audit or review; or

(b) One or more legal entities or business units that are part of the group and whose financial statements are subject to audit or review for purposes other than the group audit, for example, a statutory audit.

This consideration shall be in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section.

R360.18 *[Amended by the NZAuASB]*

NZ R360.18.1 If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph NZ R360.17.1(a) and legal entities or business units specified in paragraph NZ R360.17.1(b), the group engagement partner shall take steps to have the matter communicated to those performing audit or review work at the components, legal entities or business units, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate enquiries to be made (either of management or from publicly available information) as

to whether the relevant legal entities or business units specified in paragraph NZ R360.17.1(b) are subject to audit or review and, if so, to ascertain to the extent practicable the identity of the auditors.

360.18 A1 The purpose of the communication is to enable those responsible for audit or review work at the components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing audit or review work at the components, legal entities or business units.

Communicating the Matter to the Client's Sustainability Assurance Practitioner

R360.18a Unless prohibited from doing so by law or regulation, the assurance practitioner shall communicate the non-compliance or suspected non-compliance to the client's sustainability assurance practitioner(s) performing a sustainability assurance engagement that is within the scope of the *International Independence Standards (New Zealand)* in Part 5, when the client is also:

(a) A sustainability assurance client of the firm; or

(b) A group component of a sustainability assurance client of the firm.

The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement leader responsible for the sustainability assurance engagement.

R360.18b The assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the client's sustainability assurance practitioner(s) performing a sustainability assurance engagement that is within the scope of the *International Independence Standards (New Zealand)* in Part 5, when the client is:

(a) Also a sustainability assurance client, or a group component of a sustainability assurance client, of a network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement leader responsible for the sustainability assurance engagement; or

(b) Not a sustainability assurance client, or a group component of a sustainability assurance client, of the firm or a network firm.

Relevant Factors to Consider

360.18b A1 Factors relevant to considering the communication in accordance with paragraph R360.18b include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether management or those charged with governance have already informed the client's sustainability assurance practitioner(s) about the matter.

Purpose of Communication

360.18b A2 In the circumstances addressed in paragraphs R360.18a and R360.18b, the purpose of the communication is to enable:

(a) The engagement leader to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of Part 5; and

(b) The engagement partner and the sustainability assurance practitioner to discuss and coordinate to the extent necessary relevant actions pursuant to the provisions in this section and Section 5360, respectively.

Determining Whether Further Action Is Needed

R360.19 The assurance practitioner shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.
- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

R360.20 In light of the response of management and, where applicable, those charged with governance, the assurance practitioner shall determine if further action is needed in the public interest.

360.20 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the client.
- Whether the assurance practitioner continues to have confidence in the integrity of management and, where applicable, those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public.

360.20 A2 Examples of circumstances that might cause the assurance practitioner no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:

- The assurance practitioner suspects or has evidence of their involvement or intended involvement in any non-compliance.

- The assurance practitioner is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorised the reporting of, the matter to an appropriate authority within a reasonable period.

R360.21 The assurance practitioner shall exercise professional judgement in determining the need for, and nature and extent of, further action. In making this determination, the assurance practitioner shall take into account whether a reasonable and informed third party would be likely to conclude that the assurance practitioner has acted appropriately in the public interest.

360.21 A1 Further action that the assurance practitioner might take includes:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

360.21 A2 Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the assurance practitioner's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the assurance practitioner. In such circumstances, withdrawal might be the only available course of action.

R360.22 Where the assurance practitioner has withdrawn from the professional relationship pursuant to paragraphs R360.20 and 360.21 A1, the assurance practitioner shall, on request by the proposed assurance practitioner pursuant to paragraph R320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed assurance practitioner. The predecessor assurance practitioner shall do so, even in the circumstances addressed in paragraph R320.8(b) where the client fails or refuses to grant the predecessor assurance practitioner permission to discuss the client's affairs with the proposed assurance practitioner, unless prohibited by law or regulation.

360.22 A1 The facts and other information to be provided are those that, in the predecessor assurance practitioner's opinion, the proposed assurance practitioner needs to be aware of before deciding whether to accept the audit or review appointment. Section 320 addresses communications from proposed assurance practitioners.

R360.23 If the proposed assurance practitioner is unable to communicate with the predecessor assurance practitioner, the proposed assurance practitioner shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.

360.23 A1 Other means to obtain information about the circumstances of the change of appointment include enquiries of third parties or background investigations of management or those charged with governance.

360.24 A1 As assessment of the matter might involve complex analysis and judgements, the assurance practitioner might consider:

- Consulting internally.
- Obtaining legal advice to understand the assurance practitioner's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

360.25 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

360.25 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the assurance practitioner might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The entity is regulated and the matter is of such significance as to threaten its license to operate.
- The entity is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets.
- It is likely that the entity would sell products that are harmful to public health or safety.
- The entity is promoting a scheme to its clients to assist them in evading taxes.

360.25 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the assurance practitioner or other individuals.

R360.26 If the assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.3 of the Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions. The assurance practitioner shall also consider whether it is appropriate to inform the client of the assurance practitioner's intentions before disclosing the matter.

Imminent Breach

R360.27 In exceptional circumstances, the assurance practitioner might become aware of actual or intended conduct that the assurance practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be

appropriate to discuss the matter with management or those charged with governance of the entity, the assurance practitioner shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.3 of the Code.

Documentation

R360.28 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the assurance practitioner shall document:

- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the assurance practitioner considered, the judgements made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the assurance practitioner is satisfied that the assurance practitioner has fulfilled the responsibility set out in paragraph R360.20.

360.28 A1 *[Amended by the NZAuASB]*

NZ 360.28 A1.1 This documentation is in addition to complying with the documentation requirements under applicable auditing or review engagement standards. International Standards on Auditing (New Zealand) (ISAs (NZ)), for example, require an assurance practitioner performing an audit of financial statements to:

- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgements made in reaching those conclusions;
- Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
- Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

Assurance Services Other than Audits and Reviews of Financial Statements

Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance

R360.29 *[Amended by the NZAuASB]*

NZ R360.29.1 If an assurance practitioner engaged to provide an assurance service other than an audit or review of financial statements becomes aware of information concerning non-compliance or suspected non-compliance, the assurance practitioner shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might be about to occur.

360.29 A1 The assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgement. However, the assurance practitioner is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the assurance practitioner was engaged. Whether an act

constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

360.29 A2 Depending on the nature and significance of the matter, the assurance practitioner might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

R360.30 If the assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the assurance practitioner shall discuss the matter with the appropriate level of management. If the assurance practitioner has access to those charged with governance, the assurance practitioner shall also discuss the matter with them where appropriate.

360.30 A1 The purpose of the discussion is to clarify the assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgement. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

Communicating the Matter to the Entity's External Auditor or Assurance Practitioner

R360.31 [Amended by the NZAuASB]

NZ R360.31.1 If the assurance practitioner is performing an assurance service other than an audit or review for:

(a) An audit or review client of the firm; or

(b) A component of an audit or review client of the firm,

the assurance practitioner shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit or review engagement partner.

R360.32 *[Amended by the NZAuASB]*

NZ R360.32.1 If the assurance practitioner is performing an assurance service other than an audit or review for:

(a) An audit or review client of a network firm; or

(b) A component of an audit or review client of a network firm,

the assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence

of such protocols and procedures, it shall be made directly to the audit or review engagement partner.

R360.33 *[Amended by the NZAuASB]*

NZ R360.33.1 If the assurance practitioner is performing an assurance service other than an audit or review for a client that is not:

(a) An audit or review client of the firm or a network firm; or

(b) A component of an audit or review client of the firm or a network firm,

the assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external assurance practitioner, if any.

Relevant Factors to Consider

360.34 A1 Factors relevant to considering the communication in accordance with paragraphs R360.31 to R360.33 include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the entity's external auditor about the matter.
- The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.

Purpose of Communication

360.35 A1 In the circumstances addressed in paragraphs R360.31 to R360.33, the purpose of the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of this section.

Considering Whether Further Action Is Needed

R360.36 The assurance practitioner shall also consider whether further action is needed in the public interest.

360.36 A1 Whether further action is needed, and the nature and extent of it, will depend on factors such as:

- The legal and regulatory framework.
- The appropriateness and timeliness of the response of management and, where applicable, those charged with governance.
- The urgency of the situation.
- The involvement of management or those charged with governance in the matter.
- The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the general public.

360.36 A2 Further action by the assurance practitioner might include:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

360.36 A3 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.

R360.37 If the assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R114.3 of the Code. When making such disclosure, the assurance practitioner shall act in good faith and exercise caution when making statements and assertions. The assurance practitioner shall also consider whether it is appropriate to inform the client of the assurance practitioner's intentions before disclosing the matter.

Imminent Breach

R360.38 In exceptional circumstances, the assurance practitioner might become aware of actual or intended conduct that the assurance practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the assurance practitioner shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R114.3 of the Code.

Seeking Advice

360.39 A1 The assurance practitioner might consider:

- Consulting internally.
- Obtaining legal advice to understand the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Documentation

360.40 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the assurance practitioner is encouraged to document:

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.

- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the assurance practitioner considered, the judgements made and the decisions that were taken.
- How the assurance practitioner is satisfied that the assurance practitioner has fulfilled the responsibility set out in paragraph R360.36.

SECTION 380 TAX PLANNING SERVICES

[Deleted by the NZAuASB]

SECTION 390 USING THE WORK OF AN EXTERNAL EXPERT

Introduction

390.1 Assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

390.2 An assurance practitioner might use the work of an external expert in the performance of a professional service. Using the work of such an external expert might create threats to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional competence and due care.

390.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to using the work of an external expert. Section 5390 addresses using the work of an external expert in sustainability assurance engagements or other professional services provided to the same sustainability assurance client. Other professional standards might address the competence, capabilities and objectivity of an external expert as factors that significantly affect whether the work of the external expert will be adequate for the assurance practitioner's purposes.

Requirements and Application Material

General

390.4 A1 A self-interest threat to compliance with the principles of integrity and professional competence and due care is created if an assurance practitioner performs a professional service for which the assurance practitioner has insufficient expertise.

390.4 A2 An action that might be a safeguard to address such a threat is to use the work of an external expert for the professional service who has the competence, capabilities and objectivity to deliver the work needed for such service.

390.4 A3 An external expert might be used to undertake specific work to support a professional service provided by an assurance practitioner. Such work can be in a field that is well-established or emerging. Examples of such work include:

- The valuation of assets such as complex financial instruments, land and buildings, plant and machinery, jewellery, works of art, antiques, intangible assets, assets acquired in business combinations, and assets that may have been impaired.
- The valuation of liabilities such as those assumed in business combinations, those from actual or threatened litigation, environmental liabilities, complex financial instruments, site clean-up liabilities, and those associated with insurance contracts or employee benefit plans.
- The calculation of greenhouse gas emissions.
- The measurement of pollutants emitted to air, water and soil.
- The assessment of forward-looking information about the decarbonisation plans of an entity.
- The assessment of the application of offsetting mechanisms for an entity, such as for carbon or biodiversity.
- The valuation of products and materials designed along principles for a sustainable economy.
- The estimation of oil and gas reserves.

- The interpretation of contracts, laws and regulations, including tax and labour laws and regulations.
- The assessment and evaluation of IT systems, including those related to cybersecurity.

390.4 A4 This section does not apply to:

(a) The use of the work of an expert employed or engaged by the client to assist the client in preparing the financial or non-financial information. Such work is deemed to be information provided by management;

(b) The use of the work of individuals or organisations that are engaged by the assurance practitioner and are under the assurance practitioner's direction, supervision and review, for example, subcontractors; and

(c) The use of information provided by individuals or organisations that are external information sources for general use. Examples of those information sources include those that provide industry or other benchmarking data or studies, such as information about employment statistics including hours worked and compensation per week by geographical area, real estate prices, carbon emissions by vehicle type, mortality tables, or other datasets for general use.

390.4 A5 This section does not address an assurance practitioner's evaluation of the adequacy of an external expert's work for purposes of a professional service undertaken by the assurance practitioner, and the implications for the engagement if the assurance practitioner determines that such work is not adequate. Such implications might be addressed in other professional standards.

Agreeing the Terms of Engagement with an External Expert

All Professional Services

R390.5 If the assurance practitioner has determined to use an external expert for a professional service and has identified an external expert for such purpose, the assurance practitioner shall, to the extent not otherwise addressed by law, regulation or other professional standards, agree the terms of engagement with the external expert, including:

(a) The nature, scope and objectives of the work to be performed by the external expert; and

(b) In the context of audit, review or other assurance engagements:

(i) The provision of information in writing for purposes of assisting the assurance practitioner's evaluation of the external expert's objectivity; and

(ii) A commitment from the external expert to communicate any changes to the information provided during the period covered by the audit, review or other assurance report through to the issuance of that report.

390.5 A1 In agreeing the terms of engagement, matters that the assurance practitioner might discuss with the external expert include:

- The intended use and timing of the external expert's work.
- The external expert's planned approach to the work.
- Expectations regarding:
  - The confidentiality of the external expert's work and the inputs to that work.

- The information to be provided by the external expert and the nature of such information.
- The content and format of the external expert's completed work, including any assumptions made and limitations to that work.
- The fees for the external expert's work.
- The external expert's communication of any non-compliance or suspected non-compliance with laws and regulations committed by the client, or by those charged with governance, management or others working for or under the direction of the client, of which the external expert becomes aware when performing the work.

390.5 A2 A self-interest, self-review, familiarity or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if an assurance practitioner uses an external expert who does not have the necessary competence, capabilities or objectivity to deliver the work needed for the particular professional service.

Evaluating the External Expert's Competence, Capabilities, and Objectivity

All Professional Services

R390.6 The assurance practitioner shall evaluate whether the external expert has the necessary competence for the assurance practitioner's purpose.

390.6 A1 Competence relates to the nature and level of expertise of the external expert.

390.6 A2 Factors that are relevant in evaluating whether the external expert has the necessary competence include:

- Whether the external expert's credentials, education, training, experience and reputation are relevant to, or consistent with, the nature of the work to be performed.
- Whether the external expert belongs to a relevant professional body or is subject to oversight by a regulatory body or other authority, and, if so, whether the external expert is in good standing.
- Whether any disciplinary actions have been published by a regulatory body or other authority relating to the external expert's competence.
- Whether the external expert's work is subject to legal and regulatory requirements or professional standards issued by a recognised body, or follows generally accepted principles or practices in the external expert's field or area of expertise.
- Whether the external expert can explain their work, including the inputs, assumptions and methodologies used.
- Whether the external expert has a history of performing similar work.

R390.7 The assurance practitioner shall evaluate whether the external expert has the necessary capabilities for the assurance practitioner's purpose.

390.7 A1 Capabilities relates to the ability of the external expert to exercise their competence in the circumstances of the professional service.

390.7 A2 Factors that are relevant in evaluating whether the external expert has the necessary capabilities include:

- The resources available to the external expert.

- Whether the external expert has sufficient time to perform the work.

R390.8 The assurance practitioner shall evaluate whether the external expert has the necessary objectivity for the assurance practitioner's purpose.

390.8 A1 Objectivity relates to the possible effects that bias, conflict of interest, or the undue influence of, or undue reliance on, others might have on the professional or business judgement of the external expert.

390.8 A2 Factors that are relevant in identifying threats to the objectivity of the external expert for the period during which the external expert is performing the work include:

- Whether the external expert or their employing organisation has an actual or potential conflict of interest in relation to the work the external expert is performing at the entity.
- Whether the assurance practitioner is aware of any potential bias that might affect the external expert's work.
- Whether the external expert is charging a contingent fee, and if so, the basis for such fee.
- Whether the external expert will evaluate or rely on any previous judgements made or activities performed by the external expert or their employing organisation in relation to the subject matter of the external expert's work.

390.8 A3 The external expert's employing organisation is the entity that directly employs the expert, regardless of the legal form of the employment, and does not extend to other entities that might control, or are otherwise related to, the employing organisation.

390.8 A4 Examples of previous judgements made or activities performed by an external expert or their employing organisation that might create a self-review threat to the external expert's objectivity include:

- Having advised the entity on the matter for which the external expert is performing the work.
- Having produced data or other information, or having designed, developed, implemented, operated, maintained, monitored, updated or upgraded an IT system, for the entity which is then used by the external expert in performing the work or is the subject of that work.

390.8 A5 Factors that are relevant in evaluating the level of such threats to the external expert's objectivity include:

- The existence of conditions, policies and procedures established by the external expert's profession, legislation, regulation, or the external expert's employing organisation, including whether the external expert is subject to ethics standards issued by a body responsible for issuing such standards in the external expert's field of expertise.
- The nature and scope of the external expert's work.
- The existence and adequacy of any quality management system employed by the external expert.

390.8 A6 Examples of actions that might be safeguards to address threats to an external expert's objectivity include:

- Consulting with qualified personnel, or a professional outside the assurance practitioner's firm, who have the necessary expertise to evaluate the external expert's work for the intended purpose.
- Requesting the external expert to take steps to address a conflict of interest, for example, implementing measures to segregate the work from such conflict of interest.
- Restructuring or reassigning the part of the external expert's work giving rise to the threat to another external expert.

Sources of Information

390.9 A1 Information about the external expert's competence, capabilities and objectivity might be obtained from various sources, including:

- Personal association or experience with previous work undertaken by the external expert.
- Enquiry of others within or outside the assurance practitioner's firm who are familiar with the external expert's work.
- Discussion with the external expert about their background, including their field of expertise and business activities.
- Enquiry of the external expert's professional body or industry association.
- Articles, papers or books written by the external expert and published by a recognised publisher or in a recognised journal or other medium.
- Published records, such as legal proceedings involving the external expert.
- Enquiry of the client and, if different, the entity at which the external expert is performing the work regarding any interests and relationships between the external expert and the client or the entity.
- The system of quality management of the assurance practitioner's firm.

Additional Considerations when Evaluating Competence, Capabilities and Objectivity

390.10 A1 Evaluating whether an external expert has the necessary competence, capabilities and objectivity for the assurance practitioner's purpose involves exercising professional judgement and using the reasonable and informed third party test.

390.10 A2 An assurance practitioner might face pressure to breach the fundamental principles if the assurance practitioner encounters difficulties in concluding, or is unable to conclude, that the external expert has the necessary competence, capabilities and objectivity for the assurance practitioner's purpose when the external expert has already performed a significant portion of their work. In such circumstances, Section 270 is relevant in considering how to address such pressure.

Additional Objectivity Considerations for Audit Engagements, Review Engagements and Other Assurance Engagements Outside the Scope of Part 5

390.11 A1 Stakeholders have heightened expectations regarding the objectivity of an external expert whose work is used in an audit engagement, review engagement or other assurance engagement outside the scope of Part 5. Therefore, paragraphs R390.12 to R390.19 set out further actions in evaluating the objectivity of an external expert in such engagements, pursuant to paragraph R390.8.

R390.12 The assurance practitioner shall request the external expert to provide in writing:

(A) To the best of their knowledge and belief;

(B) In relation to the entity at which the external expert is performing the work; and

(C) From the beginning of the period covered by the audit, review or other assurance report until the completion of the external expert's work,

information about:

(a) Any direct financial interest or material indirect financial interest in the entity held by the external expert, their immediate family, or the external expert's employing organisation;

(b) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing organisation might have in relation to the work the external expert is performing at the entity; and

(c) Any previous or current engagements between the external expert or their employing organisation and the entity.

R390.13 The assurance practitioner shall also consider requesting the external expert to provide in writing:

(a) To the best of their knowledge and belief; and

(b) From the beginning of the period covered by the audit, review or other assurance report until the completion of the external expert's work,

information about any additional interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing organisation and the entity at which the external expert is performing the work.

390.13 A1 In addition to the interests, relationships or circumstances in paragraph R390.13, paragraph R390.14 sets out other interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing organisation and the entity at which the external expert is performing the work.

390.13 A2 Factors that are relevant in determining whether to request information about any additional interests, relationships or circumstances from the external expert include:

- The scale of the external expert's practice.
- The range of services offered by the external expert.
- How long the external expert has been practicing.
- The complexity of the external expert's work.
- The impact of the external expert's work on the assurance practitioner's engagement.

For example, the larger the external expert's practice, the broader its range of services, or the longer it has been practicing, the greater the possibility that there might be additional interests, relationships or circumstances between the external expert or their employing organisation and the entity.

Audit and Review Engagements for Clients that are Public Interest Entities

R390.14 The assurance practitioner shall request the external expert to provide in writing:

(A) To the best of their knowledge and belief;

(B) In relation to the entity at which the external expert is performing the work; and

(C) From the beginning of the period covered by the audit or review report until the completion of the external expert's work,

information about:

(a) Any direct financial interest or material indirect financial interest in the entity held by the external expert, their immediate family, or the external expert's employing organisation;

(b) Any loan, or guarantee of a loan, made to the entity by the external expert, their immediate family, or the external expert's employing organisation, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing organisation, as applicable, and the entity;

(c) Any loan, or guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing organisation from the entity if it is a bank or similar institution, other than where the loan or guarantee is made under normal lending procedures, terms and conditions;

(d) Any loan, or guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing organisation from the entity if it is not a bank or similar institution, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing organisation, as applicable, and the entity;

(e) Any close business relationship between the external expert, their immediate family, or the external expert's employing organisation and the entity or its management, other than where the financial interest, if any, is immaterial and the business relationship is insignificant to the external expert, their immediate family or the external expert's employing organisation, as applicable, and the entity or its management;

(f) Any previous or current engagements between the external expert or their employing organisation and the entity;

(g) Any fee or contingent fee or dependency on fees or other types of remuneration due to or recently received by the external expert or their employing organisation from the entity;

(h) Any gifts or other benefits accepted by the external expert, their immediate family or the external expert's employing organisation from the entity other than those that are trivial and inconsequential;

(i) Any actual or potential litigation between the external expert or their employing organisation and the entity;

(j) Any position currently or previously held by the external expert as a director, officer or employee of the entity;

(k) Any position currently or previously held by the external expert's immediate family or by management of the external expert's employing organisation as a director or officer of the entity, or an employee in a position to exert significant influence over the preparation of the entity's financial or non-financial information on which the assurance practitioner will express an opinion or conclusion, or the records underlying such information;

(l) Any previous public statements by the external expert or their employing organisation which advocated for the entity;

(m) The nature and extent of any interests and relationships between the controlling owners, if any, of the external expert's employing organisation and the entity; and

(n) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing organisation might have in relation to the work the external expert is performing at the entity; and

with respect to the length of the relationship of the external expert and their employing organisation with the entity:

(o) How long the association has been.

Considerations Relating to an External Expert's Team and Where the Client is Not the Entity at Which the External Expert is Performing the Work

All audit engagements, review engagements, and other assurance engagements outside the scope of Part 5

R390.15 Where the external expert uses a team to carry out the work, the assurance practitioner shall request the external expert to have all members of the external expert's team provide in writing the information set out in paragraphs R390.12 to R390.14, as applicable, in relation to the entity at which the external expert is performing the work.

R390.16 Where the assurance practitioner's client is not the entity at which the external expert is performing the work, the assurance practitioner shall also request the external expert to provide in writing:

(A) To the best of their knowledge and belief;

(B) In relation to the client; and

(C) From the beginning of the period covered by the audit, review or other assurance report until the completion of the external expert's work,

information about:

(a) Any direct financial interest or material indirect financial interest in the client held by the external expert, their immediate family, or the external expert's employing organisation;

(b) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing organisation might have with the client; and

(c) Any previous or current engagements between the external expert or their employing organisation and the client.

R390.17 The assurance practitioner shall also consider requesting the external expert to provide in writing:

(a) To the best of their knowledge and belief; and

(b) From the beginning of the period covered by the audit, review or other assurance report until the completion of the external expert's work,

information about any additional interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing organisation and the client.

390.17 A1 In addition to the interests, relationships or circumstances in paragraph R390.17, paragraph R390.14 sets out other interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing organisation and the client.

390.17 A2 Factors that are relevant in determining whether to request information about any additional interests, relationships or circumstances from the external expert include:

- The scale of the external expert's practice.
- The range of services offered by the external expert.
- How long the external expert has been practicing.
- Whether the client is a public interest entity.
- The nature of the relationship between the client and the entity at which the external expert is performing the work.
- The scale and complexity of the client's operations.
- The complexity of the external expert's work.
- The impact of the external expert's work on the assurance practitioner's engagement.

For example, the larger the external expert's practice, the broader its range of services, or the longer it has been practicing, the greater the possibility that there might be additional interests, relationships or circumstances between the external expert or their employing organisation and the entity.

390.17 A3 Information about interests, relationships or circumstances between the external expert or their employing organisation and the client might be obtained from enquiry of the client, if the circumstances of the engagement permit disclosure of the use of the external expert to the client.

Potential Threats to the External Expert's Objectivity

390.18 A1 Self-interest, familiarity or intimidation threats to the external expert's objectivity might be created by the interests, relationships or circumstances disclosed pursuant to paragraphs R390.12 to R390.17, as applicable.

390.18 A2 Factors that are relevant in evaluating the level of such threats to the external expert's objectivity include, in addition to those set out in paragraph 390.8 A5:

- Whether the financial interest is direct or indirect, and whether such financial interest is material to the external expert, their immediate family, or the external expert's employing organisation, as applicable.
- Whether the financial interest allows the external expert, their immediate family, or the external expert's employing organisation, as applicable, to control or significantly influence the entity at which the external expert is performing the work.

- The materiality or significance of the close business relationship between the external expert, their immediate family or the external expert's employing organisation, as applicable, and the entity or its management.
- The significance of any fees due to or recently received by the external expert or their employing organisation from the entity.
- The role of the individual within the external expert's team.
- The nature and value of the gifts or other benefits to the external expert, their immediate family or the external expert's employing organisation.
- The materiality or significance of the litigation and whether the litigation relates to prior work performed by the external expert at the entity.
- The length of time since the external expert left the entity as a director, officer or employee of the entity.
- The position in the entity held by the external expert's immediate family or the management of the external expert's employing organisation.
- The nature of any advocacy for the entity if the external expert or their employing organisation made any previous statement advocating for the entity.

390.18 A3 Examples of actions that might eliminate the threats to the external expert's objectivity include requesting the external expert to:

- End the close business relationship.
- Remove the individual concerned from the external expert's team.
- Decline the gifts or other benefits offered by the entity.

390.18 A4 Examples of actions that might be safeguards to address the threats to the external expert's objectivity include, in addition to those set out in paragraph 390.8 A6, requesting the external expert to:

- Dispose of enough of the financial interest so that the remaining interest is no longer material.
- Reduce the significance of the close business relationship.
- Structure the responsibilities of the individual concerned so that they do not deal with matters that are within the responsibility of the immediate family member who is serving as a director or officer of the entity, or an employee in a position to exert significant influence over the preparation of the entity's financial or non-financial information on which the assurance practitioner will express an opinion or conclusion, or the records underlying such information.
- Returning the gifts or other benefits to the entity as soon as possible after they were accepted.

Consideration of New Information or Changes in Facts or Circumstances

All Professional Services

R390.19 The assurance practitioner shall re-evaluate whether the external expert has the necessary competence, capabilities and objectivity for the assurance practitioner's purpose when new information or changes in facts and circumstances arise.

Audit, Review and Other Assurance Engagements

R390.20 The assurance practitioner shall re-evaluate whether the external expert has the necessary objectivity for the assurance practitioner's purpose when there are any changes communicated pursuant to paragraph R390.5(b)(ii) that might arise during the period covered by the audit, review or other assurance report through to the issuance of that report.

Concluding on the External Expert's Competence, Capabilities and Objectivity

All Professional Services

R390.21 The assurance practitioner shall not use the work of the external expert if the assurance practitioner:

(a) Is unable to determine whether the external expert has the necessary competence or capabilities, or is objective;

(b) Determines that the external expert does not have the necessary competence or capabilities for the assurance practitioner's purpose; or

(c) Determines that there are threats to the external expert's objectivity that cannot be eliminated or reduced to an acceptable level.

390.21 A1 Circumstances in which an assurance practitioner would be unable to determine whether the external expert has the necessary competence or capabilities, or is objective, include where:

- The external expert is unable to provide any of the information requested in paragraphs R390.12 to R390.17 because of a confidentiality restriction in law or regulation.
- In relation to specific information requested in paragraphs R390.12 to R390.17 concerning the external expert's immediate family member or employing organisation, the external expert is unable to obtain their consent to such disclosure.

390.21 A2 If an assurance practitioner uses the work of such external expert, this creates threats to the assurance practitioner's compliance with the principles of integrity, objectivity and professional competence and due care that cannot be eliminated or reduced to an acceptable level by the application of safeguards.

Potential Threats Arising from Using the Work of an External Expert

All Professional Services

390.22 A1 Threats to compliance with the fundamental principles might still be created from using the work of an external expert even if an assurance practitioner has satisfactorily concluded that the external expert has the necessary competence, capabilities and objectivity for the assurance practitioner's purpose.

Identifying Threats

390.23 A1 Examples of facts and circumstances that might create threats to an assurance practitioner's compliance with the fundamental principles when using an external expert's work include:

(a) Self-interest threats

- An assurance practitioner has insufficient expertise to understand and explain the external expert's conclusions and findings.

- An assurance practitioner has undue influence from, or undue reliance on, the external expert or multiple external experts when providing a professional service.
- An assurance practitioner has insufficient time or resources to evaluate the external expert's work.

(b) Self-review threats

- An assurance practitioner uses the work of an external expert who relies on previous judgements made by the assurance practitioner and provided to the external expert for the purposes of their work.

(c) Advocacy threats

- An assurance practitioner promotes the use of an external expert who has known bias towards conclusions potentially advantaging or disadvantaging the client.

(d) Familiarity threats

- An assurance practitioner has a close personal relationship with the external expert.

(e) Intimidation threats

- An assurance practitioner feels pressure to defer to the external expert's opinion due to the external expert's perceived authority.
- An assurance practitioner feels pressure to use the work of a particular external expert in order to meet internal or external targets and expectations.

Evaluating Threats

390.24 A1 Factors that are relevant in evaluating the level of such threats include:

- The scope and purpose of the external expert's work.
- The impact of the external expert's work on the assurance practitioner's engagement.
- The nature of the professional service for which the external expert's work is intended to be used.
- The assurance practitioner's oversight relating to the use of the external expert and the external expert's work.
- The appropriateness of, and transparency over, the data, assumptions and other inputs and methods used by the external expert.
- The assurance practitioner's ability to understand and explain the external expert's work and its appropriateness for the intended purpose.
- Whether the external expert's work is subject to technical performance standards or other professional or industry generally accepted practices, or law or regulation.
- Whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.
- The consistency of the external expert's work, including the external expert's conclusions or findings, with other information.

- The availability of other evidence, including peer-reviewed academic research, to support the external expert's approach.
- Whether there is pressure being exerted by the assurance practitioner's firm to accept the external expert's conclusions or findings due to the time or cost spent by the external expert in performing the work.

Addressing Threats

390.25 A1 An example of an action that might eliminate a familiarity threat is identifying a different external expert to use.

390.25 A2 Examples of actions that might be safeguards to address threats include:

- Consulting with qualified personnel, or a professional outside the assurance practitioner's firm, who have the necessary expertise to evaluate the external expert's work, obtaining additional input, or challenging the appropriateness of the external expert's work for the intended purpose.
- Using another external expert to reperform the external expert's work.
- Agreeing with the client additional time or resources to complete the engagement.

Other Matters

External Experts in Emerging Fields or Areas

390.26 A1 Expertise in emerging fields or areas might evolve depending on how laws, regulations and generally accepted practices develop. Emerging fields might also involve multiple areas of expertise. There might therefore be limited availability of external experts in emerging fields or areas.

390.26 A2 Information relating to some of the factors relevant to evaluating the competence of an external expert in paragraph 390.6 A2 might not be available in an emerging field or area. For example, there might not be public recognition of the external expert, professional standards might not have been developed, or professional bodies might not have been established in the emerging field. In such circumstances, a factor that might assist the assurance practitioner in evaluating an external expert's competence is the external expert's experience in a similar field to the emerging field, or in an established field, that provides a reasonable basis for the external expert's work in the emerging field.

Communicating with Management and Those Charged with Governance When Using the Work of an External Expert

390.27 A1 Where appropriate, the assurance practitioner is encouraged to communicate with management and those charged with governance:

- The purpose of using an external expert and the scope of the external expert's work.
- The respective roles and responsibilities of the assurance practitioner and the external expert in the performance of the professional service.
- Any threats to the assurance practitioner's compliance with the fundamental principles created by using the external expert's work and how they have been addressed.

Documentation

R390.28 The assurance practitioner shall obtain the information set out in paragraphs R390.12 to R390.17, as applicable, in writing from the external expert.

390.29 A1 The assurance practitioner is encouraged to document:

- The steps taken by the assurance practitioner to evaluate the external expert's competence, capabilities and objectivity, and the resulting conclusions.
- Any significant threats identified by the assurance practitioner in using the external expert's work and the actions taken to address the threats.
- The results of any significant discussions with the external expert.

INTERNATIONAL INDEPENDENCE STANDARDS (NEW ZEALAND) (PARTS 4A AND 4B)

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

CONTENTS

Page

SECTION 400 APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS 129
SECTION 405 GROUP AUDITS 145
SECTION 410 FEES 152
SECTION 411 COMPENSATION AND EVALUATION POLICIES 163
SECTION 420 GIFTS AND HOSPITALITY 164
SECTION 430 ACTUAL OR THREATENED LITIGATION 165
SECTION 510 FINANCIAL INTERESTS 166
SECTION 511 LOANS AND GUARANTEES 170
SECTION 520 BUSINESS RELATIONSHIPS 172
SECTION 521 FAMILY AND PERSONAL RELATIONSHIPS 174
SECTION 522 RECENT SERVICE WITH AN AUDIT CLIENT 177
SECTION 523 SERVING AS A DIRECTOR OR OFFICER OF AN AUDIT CLIENT 178
SECTION 524 EMPLOYMENT WITH AN AUDIT CLIENT 179
SECTION 525 TEMPORARY PERSONNEL ASSIGNMENTS 182
SECTION 540 LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT 183
SECTION 600 PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT 189
SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES 197
SUBSECTION 602 – ADMINISTRATIVE SERVICES 199
SUBSECTION 603 – VALUATION SERVICES 199
SUBSECTION 604 – TAX SERVICES 201
SUBSECTION 605 – INTERNAL AUDIT SERVICES 208
SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES 211
SUBSECTION 607 – LITIGATION SUPPORT SERVICES 213
SUBSECTION 608 – LEGAL SERVICES 215
SUBSECTION 609 – RECRUITING SERVICES 217
SUBSECTION 610 – CORPORATE FINANCE SERVICES 219
SECTION 800 REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS) 221

SECTION 400 APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

400.1 It is in the public interest and required by the Code that assurance practitioners be independent when performing audit or review engagements.

400.2 This Part applies to both audit and review engagements unless otherwise stated. The terms "audit," "audit team," "audit engagement," "audit client," and "audit report" apply equally to review, review team, review engagement, review client, and review engagement report.

NZ 400.2.1 This Part also applies to engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.

400.3 In this Part, the term "assurance practitioner" refers to individual assurance practitioners and their firms.

400.4 Professional and Ethical Standard 3[5] requires a firm to design, implement and operate a system of quality management for audits or reviews of financial statements performed by the firm. As part of this system of quality management, Professional and Ethical Standard 3 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements including those related to independence. Under Professional and Ethical Standard 3, relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to independence the requirements to which the firm and the firm's engagements are subject. International Standards on Auditing (New Zealand), International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE), International Standards on Review Engagements (New Zealand) and New Zealand Standards on Review Engagements establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. A firm assigns operational responsibility for compliance with independence requirements to an individual(s) in accordance with Professional and Ethical Standard 3. In addition, an individual assurance practitioner remains responsible for compliance with any provisions that apply to that assurance practitioner's activities, interests or relationships.

400.5 Independence is linked to the principles of objectivity and integrity. It comprises:

(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude

[5] Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

that a firm's, or an audit team member's, integrity, objectivity or professional scepticism has been compromised.

In this Part, references to an individual or firm being "independent" mean that the individual or firm has complied with the provisions of this Part.

400.6 When performing audit engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110. Section 405 sets out specific requirements and application material applicable in a group audit.

400.7 This Part describes:

(a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;

(b) Potential actions, including safeguards, that might be appropriate to address any such threats; and

(c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

Engagement Team and Audit Team

400.8 This Part applies to all audit team members, including engagement team members.

400.9 An engagement team for an audit engagement includes all partners and staff in the firm who perform audit work on the engagement, and any other individuals who perform audit procedures who are from:

(a) A network firm; or

(b) A firm that is not a network firm, or another service provider.

For example, an individual from a component auditor firm who performs audit procedures on the financial information of a component for purposes of a group audit is a member of the engagement team for the group audit.

400.10 In PES 3, a service provider includes an individual or organisation external to the firm that provides a resource that is used in the performance of engagements. Service providers exclude the firm, a network firm or other structures or organisations in the network.

400.11 An audit engagement might involve experts within, or engaged by, the firm, a network firm, or a component auditor firm outside a group auditor firm's network, who assist in the engagement. Depending on the role of the individuals, they might be engagement team or audit team members. For example:

- Individuals with expertise in a specialised area of accounting or auditing who perform audit procedures are engagement team members. These include, for example, individuals with expertise in accounting for income taxes or in analysing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships.
- Individuals within, or engaged by, the firm who have direct influence over the outcome of the audit engagement through consultation regarding technical or

industry-specific issues, transactions or events for the engagement are audit team members but not engagement team members.

However, individuals who are external experts are neither engagement team nor audit team members.

400.12 If the audit engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review are audit team members but not engagement team members.

Public Interest Entities

400.13 Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.

400.14 Factors to consider in evaluating the extent of public interest in the financial condition of an entity include:

- The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

400.15 Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.8 is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition.

Reports that Include a Restriction on Use and Distribution

400.16 An audit report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in this Part may be modified as provided in Section 800.

Assurance Engagements other than Audit and Review Engagements

400.17 Independence standards for assurance engagements that are not audit or review engagements are set out in:

- Part 4B – Independence for Assurance Engagements Other than Audit Engagements, Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5.

- Part 5 – International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand).

Requirements and Application Material

General

R400.18 A firm performing an audit engagement shall be independent.

R400.19 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

NZ R400.19.1 Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

Prohibition on Assuming Management Responsibilities

R400.20 A firm or a network firm shall not assume a management responsibility for an audit client.

400.20 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

400.20 A2 When a firm or a network firm assumes a management responsibility for an audit client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

400.20 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees work for the entity.
- Authorising transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
    - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
    - Designing, implementing, monitoring or maintaining internal control.

400.20 A4 Subject to compliance with paragraph R400.21, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit client might create a self-review threat and is addressed in Section 600.

R400.21 When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:

(i) The objectives, nature and results of the activities; and

(ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

(b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

400.21 A1 When technology is used in performing a professional activity for an audit client, the requirements in paragraphs R400.20 and R400.21 apply regardless of the nature or extent of such use of the technology.

Public Interest Entities

R400.22 For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

(a) A publicly traded entity;

(b) An entity one of whose main functions is to take deposits from the public;

(c) An entity one of whose main functions is to provide insurance to the public; or

(d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15.

NZ R400.22.1 When considering the factors in 400.14 and the categories in R400.22, a firm shall treat an entity as a public interest entity, when it meets the tier 1 criteria in accordance with XRB A1[6] and is not eligible to report in accordance with the accounting requirements of another tier.

400.22 A1 When terms other than public interest entity are applied to entities by law, regulation or professional standards to meet the purpose described in paragraph 400.15, such terms are regarded as equivalent terms. However, if law, regulation or professional standards designate entities as "public interest entities" for reasons unrelated to the purpose described in paragraph 400.15, that designation does not necessarily mean that such entities are public interest entities for the purposes of the Code.

R400.23 In complying with the requirement in paragraph R400.22, a firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.22 (a) to (c).

400.23 A1 The categories set out in paragraph R400.22 (a) to (c) are broadly defined and no recognition is given to any size or other factors that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics

[6] XRB A1 *Accounting Standards Framework*

standards for professional accountants to more explicitly define these categories by, for example:

- Making reference to specific public markets for trading securities.
- Making reference to the local law or regulation defining banks or insurance companies.
- Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.
- Setting the size criteria for certain types of entities.

400.23 A2 Paragraph R400.22(d) anticipates that those bodies responsible for setting ethics standards for professional accountants will add categories of public interest entities to meet the purpose described in paragraph 400.15, taking into account factors such as those set out in paragraph 400.14. Depending on the facts and circumstances in a specific jurisdiction, such categories could include:

- Pension funds.
- Collective investment vehicles.
- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organisations or governmental entities.
- Public utilities.

400.24 A1 A firm is encouraged to determine whether to treat other entities as public interest entities for the purposes of this Part. When making this determination, the firm might consider the factors set out in paragraph 400.14 as well as the following factors:

- Whether the entity is likely to become a public interest entity in the near future.
- Whether in similar circumstances, a predecessor firm has applied independence requirements for public interest entities to the entity.
- Whether the entity has been specified as not being a public interest entity by law, regulation or professional standards.
- Whether the entity or other stakeholders requested the firm to apply independence requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.

Public Disclosure – Application of Independence Requirements for Public Interest Entities

R400.25 Subject to paragraph R400.26, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.13 in performing an audit of the financial statements of an entity, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.

R400.26 As an exception to paragraph R400.25, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

Related Entities

R400.27 As defined, an audit client that is a FMC reporting entity considered to have a higher level of public accountability includes all of its related entities. For all other entities,

references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 400.28 to 400.29 are intentionally left blank]

Period During which Independence is Required

R400.30 Independence, as required by this Part, shall be maintained during both:

(a) The engagement period; and

(b) The period covered by the financial statements.

400.30 A1 The engagement period starts when the engagement team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.

R400.31 If an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:

(a) Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or

(b) Previous services provided to the audit client by the firm or a network firm.

400.31 A1 Threats to independence are created if a non-assurance service was provided to an audit client during, or after the period covered by the financial statements, but before the engagement team begins to perform the audit, and the service would not be permitted during the engagement period.

400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion.

400.31 A3 Examples of actions that might be safeguards to address such threats include:

- Not assigning professionals who performed the non-assurance service to be members of the engagement team.
- Having an appropriate reviewer review the audit and non-assurance work as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the audit engagement period or prior to the period covered by the financial statements on which the firm will express an opinion is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period audited or reviewed by another firm.

Audit Clients that are Public Interest Entities

R400.32 A firm shall not accept appointment as auditor of a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that might create a self-review threat in relation to the financial statements on which the firm will express an opinion unless:

(a) The provision of such service ceases before the commencement of the audit engagement period;

(b) The firm takes action to address any threats to its independence; and

(c) The firm determines that, in the view of a reasonable and informed third party, any threats to the firm's independence have been or will be eliminated or reduced to an acceptable level.

400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of non-assurance services to a public interest entity prior to appointment as auditor of that entity include:

- The results of the service had been subject to auditing procedures in the course of the audit of the prior year's financial statements by a predecessor firm.
- The firm engages an assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements, to perform a review of the first audit engagement affected by the self-review threat consistent with the objective of an engagement quality review.
- The public interest entity engages another firm outside of the network to:

  (i) Evaluate the results of the non-assurance service; or

  (ii) Re-perform the service,

  to the extent necessary to enable the other firm to take responsibility for the result of the service.

[Paragraphs 400.33 to 400.39 are intentionally left blank]

Communication with those Charged with Governance

400.40 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

(a) Consider the firm's judgements in identifying and evaluating threats;

(b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and

(c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

[Paragraphs 400.41 to 400.49 are intentionally left blank]

Network Firms

400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide assurance services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.

R400.51 A network firm shall be independent of the audit clients of the other firms within the network as required by this Part.

400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

R400.52 When associated with a larger structure of other firms and entities, a firm shall:

(a) Exercise professional judgement to determine whether a network is created by such a larger structure;

(b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and

(c) Apply such judgement consistently throughout such a larger structure.

R400.53 When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

(a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);

(b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);

(c) The entities within the structure share common quality management policies and procedures. (Ref: Para. 400.53 A4);

(d) The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);

(e) The entities within the structure share the use of a common brand name. (Ref: Para. 400.53 A6, 400.53 A7); or

(f) The entities within the structure share a significant part of professional resources. (Ref: Para 400.53 A8, 400.53 A9).

400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network, in addition to those arrangements described in paragraph R400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.

400.53 A2 The sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R400.53(a)).

400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R400.53(b)).

400.53 A4 Common quality management policies and procedures are those designed, implemented and operated across the larger structure. (Ref: Para. R400.53(c)).

400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of an assurance service. (Ref: Para. R400.53(d)).

400.53 A6 A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name when a partner of the firm signs an audit report. (Ref: Para. R400.53(e)).

400.53 A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R400.53(e)).

400.53 A8 Professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records.
- Partners and other personnel.
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
- Audit methodology or audit manuals.
- Training courses and facilities. (Ref: Para. R400.53(f)).

400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:

- The shared resources might be limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour.
- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R400.53(f)).

R400.54 If a firm or a network sells a part of its practice, and that part continues to use wholly or partly the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

400.54 A1 The agreement for the sale of a part of a practice might provide that, for a limited period of time, that part can continue to use wholly or partly the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances,

while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

[Paragraphs 400.55 to 400.59 are intentionally left blank]

General Documentation of Independence for Audit and Review Engagements

R400.60 A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

(a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and

(b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

400.60 A1 Documentation provides evidence of the firm's judgements in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

[Paragraphs 400.61 to 400.69 are intentionally left blank]

Mergers and Acquisitions

When a Client Merger Creates a Threat

400.70 A1 An entity might become a related entity of an audit client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue an audit engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

R400.71 In the circumstances set out in paragraph 400.70 A1,

(a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition; and

(b) Subject to paragraph R400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

R400.72 As an exception to paragraph R400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

(a) Evaluate the threat that is created by the interest or relationship; and

(b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.

400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

- The nature and significance of the interest or relationship.
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent).
- The length of time until the interest or relationship can reasonably be ended.

R400.73 If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the assurance practitioner, the firm shall do so only if:

(a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;

(b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the engagement team for the audit or the individual responsible for the engagement quality review; and

(c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1 Examples of such transitional measures include:

- Having an assurance practitioner review the audit or non-assurance work as appropriate.
- Having an assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements, perform a review that is consistent with the objective of an engagement quality review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R400.74 The firm might have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and might be able to complete the remaining audit procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the audit while continuing with an interest or relationship identified in paragraph 400.70 A1, the firm shall only do so if it:

(a) Has evaluated the level of the threat and discussed the results with those charged with governance;

(b) Complies with the requirements of paragraph R400.73(a) to (c); and

(c) Ceases to be the assurance practitioner no later than the date that the audit report is issued.

If Objectivity Remains Compromised

R400.75 Even if all the requirements of paragraphs R400.71 to R400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 400.70 A1 create a threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to be the assurance practitioner.

Documentation

R400.76 The firm shall document:

(a) Any interests or relationships identified in paragraph 400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;

(b) The transitional measures applied;

(c) The results of the discussion with those charged with governance; and

(d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

[Paragraphs 400.77 to 400.79 are intentionally left blank.]

Breach of an Independence Provision for Audit and Review Engagements

When a Firm Identifies a Breach

R400.80 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

(a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;

(b) Consider whether any legal or regulatory requirements apply to the breach and, if so:

(i) Comply with those requirements; and

(ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;

(c) Promptly communicate the breach in accordance with its policies and procedures to:

(i) The engagement partner;

(ii) The individual with operational responsibility for compliance with independence requirements;

(iii) Other relevant personnel in the firm and, where appropriate, the network; and

(iv) Those subject to the independence requirements in Part 4A who need to take appropriate action;

(d) Evaluate the significance of the breach and its impact on the firm’s objectivity and ability to issue an audit report; and

(e) Depending on the significance of the breach, determine:

(i) Whether to end the audit engagement; or

(ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit report.

400.80 A1 A breach of a provision of this Part might occur despite the firm having a system of quality management designed to address independence requirements. It might be necessary to end the audit engagement because of the breach.

400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue an audit report will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current audit engagement.
- Whether an audit team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is an audit team member or another individual for whom there are independence requirements.
- If the breach relates to an audit team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements on which the firm will express an opinion.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the audit team.
- Using different individuals to conduct an additional review of the affected audit work or to re-perform that work to the extent necessary.
- Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary.
- If the breach relates to a non-assurance service that affects the accounting records or an amount recorded in the financial statements, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R400.81 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the audit engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

R400.82 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

(a) The significance of the breach, including its nature and duration;

(b) How the breach occurred and how it was identified;

(c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue an audit report;

(d) The conclusion that, in the firm's professional judgement, objectivity has not been

compromised and the rationale for that conclusion; and

(e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

Communication of Breaches to Those Charged with Governance

400.83 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

R400.84 With respect to breaches, the firm shall communicate in writing to those charged with governance:

(a) All matters discussed in accordance with paragraph R400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and

(b) A description of:

(i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and

(ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

R400.85 If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit engagement in accordance with paragraph R400.81.

Breaches Before the Previous Audit Report Was Issued

R400.86 If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with the provisions of Part 4A in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit report in the current period.

R400.87 The firm shall also:

(a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, and the possibility of withdrawing such audit reports; and

(b) Discuss the matter with those charged with governance.

Documentation

R400.88 In complying with the requirements in paragraphs R400.80 to R400.87, the firm shall document:

(a) The breach;

(b) The actions taken;

(c) The key decisions made;

(d) All the matters discussed with those charged with governance; and

(e) Any discussions with a professional or regulatory body or oversight authority.

R400.89 If the firm continues with the audit engagement, it shall document:

(a) The conclusion that, in the firm's professional judgement, objectivity has not been compromised; and

(b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit report.

SECTION 405 GROUP AUDITS

Introduction

405.1 Section 400 requires a firm to be independent when performing an audit engagement, and to apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing a group audit engagement.

Requirements and Application Material

General

405.2 A1 ISAs (NZ) apply to an audit of group financial statements. ISA (NZ) 600 deals with special considerations that apply to an audit of group financial statements, including when component auditors are involved. ISA (NZ) 600 requires the group engagement partner to take responsibility for confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit. The independence requirements referred to in ISA (NZ) 600, or other relevant auditing standards applicable to group audits that are equivalent to ISA 600 (NZ), are those specified in this section.

405.2 A2 A component auditor firm that participates in a group audit engagement might separately issue an audit opinion on the financial statements of the component audit client. Depending on the circumstances, the component auditor firm might need to comply with different independence requirements when performing audit work for a group audit and separately issuing an audit opinion on the financial statements of the component audit client for statutory, regulatory or other reasons.

Communication Between a Group Auditor Firm and a Component Auditor Firm

R405.3 ISA (NZ) 600 requires the group engagement partner to take responsibility to make a component auditor aware of the relevant ethical requirements that are applicable given the nature and the circumstances of the group audit engagement. When making the component auditor firm aware of the relevant ethical requirements, the group auditor firm shall communicate at appropriate times the necessary information to enable the component auditor firm to meet its responsibilities under this section.

405.3 A1 Examples of matters the group auditor firm might communicate include:

- Whether the group audit client is a public interest entity and the relevant ethical requirements applicable to the group audit engagement.
- The related entities and other components within the group audit client that are relevant to the independence considerations applicable to the component auditor firm and the group audit team members within, or engaged by, that firm.
- The period during which the component auditor firm is required to be independent.
- Whether an audit partner who performs work at the component for purposes of the group audit is a key audit partner for the group audit.

R405.4 ISA (NZ) 600 also requires the group engagement partner to request the component auditor to communicate whether the component auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement. For the purposes of this section, such a request shall include the communication of:

(a) Any independence matters that require significant judgement; and

(b) In relation to those matters, the component auditor firm's conclusion whether the threats to its independence are at an acceptable level, and the rationale for that conclusion.

405.4 A1 If a matter comes to the attention of the group engagement partner that indicates that a threat to independence exists, ISA (NZ) 220 requires the group engagement partner to evaluate the threat and take appropriate action.

Independence Considerations Applicable to Individuals

Members of the Group Audit Team Within, or Engaged by, a Group Auditor Firm and Its Network Firms

R405.5 Members of the group audit team within, or engaged by, the group auditor firm and its network firms shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to the audit team.

Other Members of the Group Audit Team

R405.6 Members of the group audit team within, or engaged by, a component auditor firm outside the group auditor firm's network shall be independent of:

(a) The component audit client;

(b) The entity on whose group financial statements the group auditor firm expresses an opinion; and

(c) Any entity over which the entity in subparagraph (b) has direct or indirect control, provided that such entity has direct or indirect control over the component audit client,

in accordance with the requirements of this Part that are applicable to the audit team.

R405.7 In relation to related entities or components within the group audit client other than those covered in paragraph R405.6, a member of the group audit team within, or engaged by, a component auditor firm outside the group auditor firm's network shall notify the component auditor firm about any relationship or circumstance the individual knows, or has reason to believe, might create a threat to the individual's independence in the context of the group audit.

405.7 A1 Examples of relationships or circumstances involving the individual or any of the individual's immediate family members, as applicable, that are relevant to the individual's consideration when complying with paragraph R405.7 include:

- A direct or material indirect financial interest in an entity that has control over the group audit client if the group audit client is material to that entity (see Section 510).
- A loan or guarantee involving: (see Section 511)
    - An entity that is not a bank or similar institution unless the loan or guarantee is immaterial; or
    - A bank or similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- A business relationship that is significant or involves a material financial interest (see Section 520).
- An immediate family member who is: (see Section 521)

- A director or officer of an entity; or
- An employee in a position to exert significant influence over the preparation of an entity's accounting records or financial statements.

- The individual serving as, or having recently served as: (see Section 522 and Section 523)
  - A director or officer of an entity; or
  - An employee in a position to exert significant influence over the preparation of an entity's accounting records or financial statements.

R405.8 Upon receiving the notification as set out in paragraph R405.7, the component auditor firm shall evaluate and address any threats to independence created by the individual's relationship or circumstance.

Independence Considerations Applicable to a Group Auditor Firm

R405.9 A group auditor firm shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to a firm.

Independence Considerations Applicable to Network Firms of a Group Auditor Firm

R405.10 A network firm of the group auditor firm shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to a network firm.

Independence Considerations Applicable to Component Auditor Firms outside a Group Auditor Firm's Network

All Group Audit Clients

R405.11 A component auditor firm outside the group auditor firm's network shall:

(a) Be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to a firm with respect to all audit clients;

(b) Apply the relevant requirements in paragraphs R510.4(a), R510.7 and R510.9 with respect to financial interests in the entity on whose group financial statements the group auditor firm expresses an opinion; and

(c) Apply the relevant requirements in Section 511 with respect to loans and guarantees involving the entity on whose group financial statements the group auditor firm expresses an opinion.

R405.12 When a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that a relationship or circumstance involving the group audit client, beyond those addressed in paragraph R405.11(b) and (c), is relevant to the evaluation of the component auditor firm's independence from the component audit client, the component auditor firm shall include that relationship or circumstance when identifying, evaluating and addressing threats to independence.

R405.13 When a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that a relationship or circumstance of a firm within the component auditor firm's network with the component audit client or the group audit client creates a threat to the component auditor firm's independence, the component auditor firm shall evaluate and address any such threat.

Period During which Independence is Required

405.14 A1 The references to the financial statements and the audit report in paragraphs R400.30 and 400.30 A1 mean the group financial statements and the audit report on the group financial statements, respectively, when applied in this section.

Group Audit Clients that are Not Public Interest Entities

R405.15 When the group audit client is not a public interest entity, a component auditor firm outside the group auditor firm's network shall be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to audit clients that are not public interest entities for the purposes of the group audit.

405.15 A1 Where a component auditor firm outside the group auditor firm's network also performs an audit engagement for a component audit client that is a public interest entity for reasons other than the group audit, for example, a statutory audit, the_independence requirements that are relevant to audit clients that are public interest entities apply to that engagement.

Group Audit Clients that are Public Interest Entities

Non-Assurance Services

R405.16 Subject to paragraph R405.17, when the group audit client is a public interest entity, a component auditor firm outside the group auditor firm's network shall comply with the provisions in Section 600 that are applicable to public interest entities with respect to the provision of non-assurance services to the component audit client.

405.16 A1 Where the group audit client is a public interest entity, a component auditor firm outside the group auditor firm's network is prohibited from, for example:

- Providing accounting and bookkeeping services to a component audit client that is not a public interest entity (see Subsection 601).
- Designing the information technology system, or an aspect of it, for a component audit client that is not a public interest entity where such information technology system generates information for the component audit client's accounting records or financial statements (see Subsection 606).
- Acting in an advocacy role for a component audit client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court (see Subsection 608).

405.16 A2 The financial information on which a component auditor firm outside the group auditor firm's network performs audit procedures is relevant to the evaluation of the self-review threat that might be created by the component auditor firm's provision of a non-assurance service, and therefore the application of Section 600. For example, if the component auditor firm's audit procedures are limited to a specific item such as inventory, the results of any non-assurance service that form part of or affect the accounting records or the financial information related to the accounting for, or the internal controls over, inventory are relevant to the evaluation of the self-review threat.

R405.17 As an exception to paragraph R405.16, a component auditor firm outside the group auditor firm's network may provide a non-assurance service that is not prohibited under Section 600 to a component audit client without communicating information about the proposed non-assurance service to those charged with governance of the group audit client or obtaining their concurrence regarding the provision of that service as addressed by paragraphs R600.21 to R600.24.

Key Audit Partners

R405.18 The group engagement partner shall determine whether an audit partner who performs audit work at a component for purposes of the group audit is a key audit partner for the group audit. If so, the group engagement partner shall:

(a) Communicate that determination to that individual; and

(b) Indicate:

(i) In the case of all group audit clients, that the individual is subject to paragraph R411.4, and

(ii) In the case of group audit clients that are public interest entities, that the individual is also subject to paragraphs R524.6, R540.5(c) and R540.20.

405.18 A1 A key audit partner makes key decisions or judgements on significant matters with respect to the audit of the group financial statements on which the group auditor firm expresses an opinion in the group audit.

Changes in Components

All Group Audit Clients

R405.19 When an entity that is not a related entity becomes a component within the group audit client, the group auditor firm shall apply paragraphs R400.71 to R400.76.

Changes in Component Auditor Firms

All Group Audit Clients

405.20 A1 There might be circumstances in which the group auditor firm requests another firm to perform audit work as a component auditor firm during or after the period covered by the group financial statements, for example due to a client merger or acquisition. A threat to the component auditor firm's independence might be created by:

(a) Financial or business relationships of the component auditor firm with the component audit client during or after the period covered by the group financial statements but before the component auditor firm agrees to perform the audit work; or

(b) Previous services provided to the component audit client by the component auditor firm.

405.20 A2 Paragraphs 400.31 A1 to A3 set out application material that is applicable for a component auditor firm's assessment of threats to independence if a non-assurance service was provided by the component auditor firm to the component audit client during or after the period covered by the group financial statements, but before the component auditor firm begins to perform the audit work for the purposes of the group audit, and the service would not be permitted during the engagement period.

405.20 A3 Paragraph 400.31 A4 sets out application material that is applicable for a component auditor firm's assessment of threats to independence if a non-assurance service was provided by the component auditor firm to the component audit client prior to the period covered by the group financial statements.

Group Audit Clients that are Public Interest Entities

405.21 A1 Paragraphs R400.32 and 400.32 A1 are applicable when a component auditor firm agrees to perform audit work for group audit purposes in relation to a group audit client that is

a public interest entity if the component auditor firm has previously provided a non-assurance service to the component audit client.

405.21 A2 Paragraphs R600.25 and 600.25 A1 are applicable in relation to a non-assurance service provided, either currently or previously, by a component auditor firm to a component audit client when the group audit client subsequently becomes a public interest entity.

Breach of an Independence Provision at a Component Auditor Firm

405.22 A1 A breach of a provision of this section might occur despite a component auditor firm having a system of quality management designed to address independence requirements. Paragraphs R405.23 to R405.29 are relevant to a group auditor firm's determination as to whether it would be able to use a component auditor firm's work if a breach has occurred at the component auditor firm.

405.22 A2 In the case of a breach at a component auditor firm within the group auditor firm's network, paragraphs R400.80 to R400.89 also apply to the group auditor firm in relation to the group audit, as applicable.

When a Component Auditor Firm Identifies a Breach

R405.23 If a component auditor firm concludes that a breach of this section has occurred, the component auditor firm shall:

(a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;

(b) Evaluate the significance of the breach and its impact on the component auditor firm's objectivity and ability to perform audit work for the purposes of the group audit;

(c) Depending on the significance of the breach, determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and

(d) Promptly communicate in writing the breach to the group engagement partner, including the component auditor firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

405.23 A1 Paragraphs 400.80 A2 and A3 set out application material relevant to the component auditor firm's evaluation of the significance and impact of the breach on the component auditor firm's objectivity and ability to issue an opinion or conclusion on the audit work performed at the component for purposes of the group audit, and its consideration of any actions that might be taken to address the consequences of the breach satisfactorily.

R405.24 Upon receipt of the component auditor firm's communication of the breach, the group engagement partner shall:

(a) Review the component auditor firm's assessment of the significance of the breach and its impact on the component auditor firm's objectivity, and any action that can be or has been taken to address the consequences of the breach;

(b) Evaluate the group auditor firm's ability to use the work of the component auditor firm for the purposes of the group audit; and

(c) Determine the need for any further action.

R405.25 In applying paragraph R405.24, the group engagement partner shall exercise professional judgement and take into account whether a reasonable and informed third party would

be likely to conclude that the component auditor firm's objectivity is compromised, and therefore, the group auditor firm is unable to use the work of the component auditor firm for the purposes of the group audit.

405.25 A1 If the group engagement partner determines that the consequences of the breach have been satisfactorily addressed by the component auditor firm and does not compromise the component auditor firm's objectivity, the group auditor firm may continue to use the work of the component auditor firm for the group audit. In certain circumstances, the group engagement partner might determine that additional actions are needed to satisfactorily address the breach in order to use the component auditor firm's work. Examples of such action include the group auditor firm performing specific procedures on the areas impacted by the breach or requesting the component auditor firm to perform appropriate remedial work on the affected areas.

405.25 A2 ISA (NZ) 600 sets out that if there has been a breach by a component auditor and the breach has not been satisfactorily addressed, the group auditor cannot use the work of that component auditor. In those circumstances, the group engagement partner might find other means to obtain the necessary audit evidence on the component audit client's financial information. Examples of such means include the group auditor firm performing the necessary audit work on the component audit client's financial information or requesting another component auditor firm to perform such audit work.

Discussion with Those Charged with Governance of the Group Audit Client

405.26 A1 With respect to breaches by a component auditor firm within the group auditor firm's network, paragraph R400.84 applies.

R405.27 With respect to breaches by a component auditor firm outside the group auditor firm's network, the group auditor firm shall discuss with those charged with governance of the group audit client:

(a) The component auditor firm's assessment of the significance and impact of the breach on the component auditor firm's objectivity, including the nature and duration of the breach, and the action that can be or has been taken; and

(b) Whether:

(i) The action will satisfactorily address, or has addressed, the consequences of the breach; or

(ii) The group auditor firm will use other means to obtain the necessary audit evidence on the component audit client's financial information.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

R405.28 The group auditor firm shall communicate in writing to those charged with governance of the group audit client all matters discussed in accordance with paragraph R405.27 and obtain the concurrence of those charged with governance that the action can be or has been taken to satisfactorily address the consequences of the breach.

R405.29 If those charged with governance do not concur that the action that can be or has been taken would satisfactorily address the consequences of the breach at the component auditor firm, the group auditor firm shall not use the work performed by the component auditor firm for the purposes of the group audit.

SECTION 410 FEES

Introduction

410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

410.2 Section 330 sets out application material relevant to applying the conceptual framework where the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to audit clients.

Requirements and Application Material

General

410.3 A1 Fees for assurance services are usually negotiated with and paid by an audit client and might create threats to independence. This practice is generally recognised and accepted by intended users of financial statements.

410.3 A2 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for audit clients that are public interest entities.

410.3 A3 For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of financial statements. Where reference is made to the fee for the audit of the financial statements, this does not include any fee for an audit of special purpose financial statements or a review of financial statements. (Ref: Para. R410.23(a), 410.25 A1 and R410.31(a))

Fees Paid by an Audit Client

410.4 A1 When fees are negotiated with and paid by an audit client, this creates a self-interest threat and might create an intimidation threat to independence.

410.4 A2 The application of the conceptual framework requires that before a firm or network firm accepts an audit or any other engagement for an audit client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period for the audit.

410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client include:

- The level of the fees and the extent to which they have regard to the resources required, taking into account the firm’s commercial and market priorities.
- Any linkage between fees for the audit and those for services other than audit and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.

- Whether the fee is for services to be provided by the firm or a network firm.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The operating structure and the compensation arrangements of the firm and network firms.
- The significance of the client, or a third party referring the client, to the firm, network firm, partner or office.
- The nature of the client, for example whether the client is a public interest entity.
- The relationship of the client to the related entities to which the services other than audit are provided, for example when the related entity is a sister entity.
- The involvement of those charged with governance in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of the audit and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the firm's audit work is subject to the review of an independent third party, such as an oversight body.

410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly a system of quality management designed, implemented and operated by the firm in accordance with quality management standards issued by the New Zealand Auditing and Assurance Standards Board) might also impact the evaluation of whether the threats to independence are at an acceptable level.

410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Audit Fees

410.5 A1 Determining the fees to be charged to an audit client, whether for audit, review or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the audit fee paid by the audit client include:

- The firm's commercial rationale for the audit fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the audit fee.

410.5 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the audit engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the audit engagement review the work performed.

Impact of Other Services Provided to an Audit Client

R410.6 Subject to paragraph R410.7, a firm shall not allow the audit fee to be influenced by the provision of services other than audit to an audit client by the firm or a network firm.

410.6 A1 The audit fee ordinarily reflects a combination of matters, such as those identified in paragraph 410.23 A1. However, the provision of other services to an audit client is not an appropriate consideration in determining the audit fee.

R410.7 As an exception to paragraph R410.6, when determining the audit fee, the firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than audit to an audit client.

Contingent Fees

410.8 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R410.9 A firm shall not charge directly or indirectly a contingent fee for an audit engagement.

R410.10 A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an audit client, if:

(a) The fee is charged by the firm expressing the opinion on the financial statements and the fee is material or expected to be material to that firm;

(b) The fee is charged by a network firm that participates in a significant part of the audit and the fee is material or expected to be material to that firm; or

(c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to the audit of a material amount in the financial statements.

410.10 A1 Paragraphs R410.9 and R410.10 preclude a firm or a network firm from entering into certain contingent fee arrangements with an audit client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an audit client, it might still impact the level of the self-interest threat.

410.10 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the financial statements.

410.10 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee

410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor's independence.

410.11 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than audit to the audit fee.
- The length of time during which a large proportion of fees for services other than audit to the audit fee has existed.
- The nature, scope and purposes of the services other than audit, including:
  - Whether they are recurring services.
  - Whether law or regulation mandates the services to be performed by the firm.

410.11 A2a Where a firm or a network firm provides a sustainability assurance engagement addressed in the *International Independence Standards (New Zealand)* 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.

410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.
- Reducing the extent of services other than audit provided to the audit client.

Total Fees – Overdue Fees

410.12 A1 The level of the self-interest threat might be impacted if fees payable by an audit client for the audit or services other than audit are overdue during the period of the audit engagement.

410.12 A2 It is generally expected that the firm will obtain payment of such fees before the audit report is issued.

410.12 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the firm.
- The length of time the fees have been overdue.
- The firm's assessment of the ability and willingness of the audit client to pay the overdue fees.

410.12 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the audit engagement review the audit work.

R410.13 When a significant part of the fees due from an audit client remains unpaid for a long time, the firm shall determine:

(a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in section 511 are applicable; and

(b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement.

Total Fees – Fee Dependency

All Audit Clients

410.14 A1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from audit and other services from that client impact the level of the self-interest threat and create an intimidation threat.

410.14 A2 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

410.14 A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:

- The operating structure of the firm.
- Whether the firm is expected to diversify such that any dependence on the audit client is reduced.

410.14 A4 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who is not a member of the firm review the audit work.
- Reducing the extent of services other than audit provided to the audit client.
- Increasing the client base of the firm to reduce dependence on the client.
- Increasing the extent of services provided to other clients.

410.14 A5 A self-interest or intimidation threat is created when the fees generated by a firm from an audit client represent a large proportion of the revenue of one partner or one office of the firm.

410.14 A6 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the audit client to the partner or office.
- The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.

410.14 A7 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit engagement review the audit work.
- Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than audit provided by the partner or office to the audit client.

- Increasing the client base of the partner or the office to reduce dependence on the client.
- Increasing the extent of services provided by the partner or the office to other clients.

Audit Clients that are Not Public Interest Entities

R410.15 When for each of five consecutive years total fees from an audit client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:

(a) Prior to the audit opinion being issued on the fifth year's financial statements, have an assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements, review the fifth year's audit work; or

(b) After the audit opinion on the fifth year's financial statements has been issued, and before the audit opinion is issued on the sixth year's financial statements, have an assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements, or a professional body review the fifth year's audit work.

R410.16 If the total fees described in paragraph R410.15 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R410.15 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the firm from the client, and if so, apply it.

R410.17 When two or more firms are engaged to conduct an audit of the client's financial statements, the involvement of the other firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.15 (a), if:

(a) The circumstances addressed by paragraph R410.15 apply to only one of the firms expressing the audit opinion; and

(b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.

Audit Clients that are Public Interest Entities

R410.18 When for each of two consecutive years the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the audit opinion being issued on the second year's financial statements, a review, consistent with the objective of an engagement quality review, performed by an assurance practitioner who is not a member of the firm expressing the opinion on the financial statements ("pre-issuance review") might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.

R410.19 When two or more firms are engaged to conduct an audit of the client's financial statements, the involvement of the other firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.18, if:

(a) The circumstances addressed by paragraph R410.18 apply to only one of the firms expressing the audit opinion; and

(b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.

R410.20 Subject to paragraph R410.21, if the circumstances described in paragraph R410.18 continue for five consecutive years, the firm shall cease to be the auditor after the audit opinion for the fifth year is issued.

R410.21 As an exception to paragraph R410.20, the firm may continue to be the auditor after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:

(a) The firm consults with a regulatory or professional body in the relevant jurisdiction and it concurs that having the firm continue as the auditor would be in the public interest; and

(b) Before the audit opinion on the sixth and any subsequent year's financial statements is issued, the firm engages an assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements, to perform a pre-issuance review.

410.21 A1 A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the audit engagement, having regard to the nature and location of the client's business.

Transparency of Information Regarding Fees for Audit Clients that are Public Interest Entities

Communication About Fee-related Information with Those Charged with Governance

410.22 A1 Communication by the firm of fee-related information (for both audit and services other than audit) with those charged with governance assists in their assessment of the firm's independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of audit work and impact on the audit fee.

Fees for the Audit of the Financial Statements

R410.23 Subject to paragraph R410.24, the firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:

(a) Fees paid or payable to the firm or network firms for the audit of the financial statements on which the firm expresses an opinion; and

(b) Whether the threats created by the level of those fees are at an acceptable level, and if not, any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.23 A1 The objective of such communication is to provide the background and context to the fees for the audit of the financial statements on which the firm expresses an opinion to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
    - The scale, complexity and geographic spread of the audit client's operations.
    - The time spent or expected to be spent commensurate with the scope and complexity of the audit.
    - The cost of other resources utilised or expended in performing the audit.

- The quality of record keeping and processes for financial statements preparation.

- Adjustments to the fees quoted or charged during the period of the audit, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the audit that impacted the fees.

410.23 A2 The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

R410.24 As an exception to paragraph R410.23, the firm may determine not to communicate the information set out in paragraph R410.23 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

(a) The entity is consolidated into group financial statements prepared by that other public interest entity; and

(b) The firm or a network firm expresses an opinion on those group financial statements.

Fees for Other Services

R410.25 Subject to paragraph R410.27, the firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:

(a) The fees, other than those disclosed under paragraph R410.23 (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion; and

(b) As set out in paragraph 410.11 A1, where the firm has identified that there is an impact on the level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of fees for services other than audit relative to the audit fee:

(i) Whether such threats are at an acceptable level; and

(ii) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.25 A1 The objective of such communication is to provide the background and context to the fees for other services to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees for other services that are required by law or regulation.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees.
- The proportion of fees referred to in paragraph R410.25(a) to the aggregate of the fees charged by the firm and network firms for the audit of the financial statements on which the firm expresses an opinion.

R410.26 The firm shall include in the communication required by paragraph R410.25(a) the fees, other than those disclosed under paragraph R410.23(a), charged to any other related entities over which the audit 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.

410.26 A1 Factors the firm might consider when determining whether the fees, other than those disclosed under paragraph R410.23(a), charged to such other related entities, individually and in the aggregate, for the provision of services by the firm or a network firm are relevant to the evaluation of the firm's independence include:

- The extent of the audit client's involvement in the appointment of the firm or network firm for the provision of such services, including the negotiation of fees.
- The significance of the fees paid by the other related entities to the firm or a network firm.
- The proportion of fees from the other related entities to the fees paid by the client.

R410.27 As an exception to paragraph R410.25, the firm may determine not to communicate the information set out in paragraph R410.25 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

(a) The entity is consolidated into group financial statements prepared by that other public interest entity; and

(b) The firm or a network firm expresses an opinion on those group financial statements.

Fee Dependency

R410.28 Where the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance:

(a) That fact and whether this situation is likely to continue;

(b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R410.18); and

(c) Any proposal to continue as the auditor under paragraph R410.21.

Public Disclosure of Fee-related Information

410.29 A1 In view of the public interest in the audits of public interest entities, it is beneficial for stakeholders to have visibility about the professional relationships between the firm and the audit client which might reasonably be thought to be relevant to the evaluation of the firm's independence. In a wide number of jurisdictions, there already exist requirements regarding the disclosure of fees by an audit client for both audit and services other than audit paid and payable to the firm and network firms. Such disclosures often require the disaggregation of fees for services other than audit into different categories.

R410.30 If laws and regulations do not require[7] an audit client to disclose audit fees, fees for services other than audit paid or payable to the firm and network firms and information

[7] FRS-44 *New Zealand Additional Disclosures* and PBE IPSAS 1 *Presentation of Financial Reports* issued by the New Zealand Accounting Standards Board require disclosure of fees paid to the audit firm. Additionally, section 211 of the Companies Act 1993 requires the annual report to include the amounts payable to the audit firm.

about fee dependency, the firm shall discuss with those charged with governance of an audit client that is a public interest entity:

(a) The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, 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.

410.30 A1 Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include:

- Comparative information of the prior year's fees for audit and services other than audit.
- The nature of services and their associated fees as disclosed under paragraph R410.31(b).
- Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.

R410.31 After the discussion with those charged with governance as set out in paragraph R410.30, to the extent that the audit client that is a public interest entity does not make the relevant disclosure, subject to paragraph R410.32, the firm shall publicly disclose:

(a) Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion;

(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 period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion;

(c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the audit 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 audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.

410.31 A1 The firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the firm's independence, such as the examples described in paragraph 410.30 A1.

410.31 A2 Factors the firm might consider when making the determination required by paragraph R410.31(c) are set out in paragraph 410.26 A1.

410.31 A3 When disclosing fee-related information in compliance with paragraph R410.31, the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the firm's website.
- In the firm's transparency report.

- In an audit quality report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the auditor's report.

R410.32 As an exception to paragraph R410.31, the firm may determine not to publicly disclose the information set out in paragraph R410.31 relating to:

(a) A parent entity that also prepares group financial statements provided that the firm or a network firm expresses an opinion on the group financial statements; or

(b) An entity (directly or indirectly) wholly-owned by another public interest entity provided that:

(i) The entity is consolidated into group financial statements prepared by that other public interest entity; and

(ii) The firm or a network firm expresses an opinion on those group financial statements.

Considerations for Review Clients

R410.33 This section sets out requirements for a firm to communicate fee-related information of an audit client that is a public interest entity and to disclose publicly fee-related information to the extent that the client does not disclose such information. As an exception to those requirements, the firm may determine not to communicate or pursue disclosure of such information where a review client is not also an audit client.

SECTION 411 COMPENSATION AND EVALUATION POLICIES

Introduction

411.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

411.2 A firm's evaluation or compensation policies might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

411.3 A1 When an audit or review team member for a particular audit client is evaluated on or compensated for selling non-assurance services to that audit client, the level of the self-interest threat will depend on:

(a) What proportion of the compensation or evaluation is based on the sale of such services;

(b) The role of the individual on the audit team; and

(c) Whether the sale of such non-assurance services influences promotion decisions.

411.3 A2 Examples of actions that might eliminate such a self-interest threat include:

- Revising the compensation plan or evaluation process for that individual.
- Removing that individual from the audit team.

411.3 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit team member.

R411.4 A firm shall not evaluate or compensate a key audit partner based on that partner's success in selling non-assurance services to the partner's audit client. This requirement does not preclude normal profit-sharing arrangements between partners of a firm.

SECTION 420 GIFTS AND HOSPITALITY

Introduction

420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

420.2 Accepting gifts and hospitality from an audit client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirement and Application Material

R420.3 A firm, network firm or an audit team member shall not accept gifts and hospitality from an audit client, unless the value is trivial and inconsequential.

420.3 A1 Where a firm, network firm or audit team member is offering or accepting an inducement to or from an audit client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.

420.3 A2 The requirements set out in Section 340 relating to offering or accepting inducements do not allow a firm, network firm or audit team member to accept gifts and hospitality where the intent is to improperly influence behaviour even if the value is trivial and inconsequential.

SECTION 430 ACTUAL OR THREATENED LITIGATION

Introduction

430.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

430.2 When litigation with an audit client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

General

430.3 A1 The relationship between client management and audit team members must be characterised by complete candour and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an audit client and the firm, a network firm or an audit team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.

430.3 A2 Factors that are relevant in evaluating the level of such threats include:

- The materiality of the litigation.
- Whether the litigation relates to a prior audit engagement.

430.3 A3 If the litigation involves an audit team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the audit team.

430.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is to have an appropriate reviewer review the work performed.

SECTION 510 FINANCIAL INTERESTS

Introduction

510.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

510.2 Holding a financial interest in an audit client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

510.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.

510.3 A2 This section contains references to the "materiality" of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an audit client include:

- The role of the individual holding the financial interest.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest.

Financial Interests Held by the Firm, a Network Firm, Audit Team Members and Others

R510.4 Subject to paragraph R510.5, a direct financial interest or a material indirect financial interest in the audit client shall not be held by:

(a) The firm or a network firm;

(b) An audit team member, or any of that individual's immediate family;

(c) Any other partner in the office in which an engagement partner practices in connection with the audit engagement, or any of that other partner's immediate family; or

(d) Any other partner or managerial employee who provides non-audit services to the audit client, except for any whose involvement is minimal, or any of that individual's immediate family.

510.4 A1 The office in which the engagement partner practices in connection with an audit engagement is not necessarily the office to which that partner is assigned. When the engagement partner is located in a different office from that of the other engagement team members, professional judgement is needed to determine the office in which the partner practices in connection with the engagement.

R510.5 As an exception to paragraph R510.4, an immediate family member identified in subparagraphs R510.4(c) or (d) may hold a direct or material indirect financial interest in an audit client, provided that:

(a) The family member received the financial interest because of employment rights, for example through pension or share option plans, and, when necessary, the firm addresses the threat created by the financial interest; and

(b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

Financial Interests in an Entity Controlling an Audit Client

R510.6 When an entity has a controlling interest in an audit client and the client is material to the entity, neither the firm, nor a network firm, nor an audit team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Financial Interests Held as Trustee

R510.7 Paragraph R510.4 shall also apply to a financial interest in an audit client held in a trust for which the firm, network firm or individual acts as trustee, unless:

(a) None of the following is a beneficiary of the trust: the trustee, the audit team member or any of that individual's immediate family, the firm or a network firm;

(b) The interest in the audit client held by the trust is not material to the trust;

(c) The trust is not able to exercise significant influence over the audit client; and

(d) None of the following can significantly influence any investment decision involving a financial interest in the audit client: the trustee, the audit team member or any of that individual's immediate family, the firm or a network firm.

Financial Interests in Common with the Audit Client

R510.8 **(a)** A firm, or a network firm, or an audit team member, or any of that individual's immediate family shall not hold a financial interest in an entity when an audit client also has a financial interest in that entity, unless:

(i) The financial interests are immaterial to the firm, the network firm, the audit team member and that individual's immediate family member and the audit client, as applicable; or

(ii) The audit client cannot exercise significant influence over the entity.

(b) Before an individual who has a financial interest described in paragraph R510.8(a) can become an audit team member, the individual or that individual's immediate family member shall either:

(i) Dispose of the interest; or

(ii) Dispose of enough of the interest so that the remaining interest is no longer material.

Financial Interests Received Unintentionally

R510.9 If a firm, a network firm or a partner or employee of the firm or a network firm, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an audit client by way of an inheritance, gift, as a result of a

merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

(a) If the interest is received by the firm or a network firm, or an audit team member or any of that individual's immediate family, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or

(b) **(i)** If the interest is received by an individual who is not an audit team member, or by any of that individual's immediate family, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and

(ii) Pending the disposal of the financial interest, when necessary the firm shall address the threat created.

Financial Interests – Other Circumstances

Immediate Family

510.10 A1 A self-interest, familiarity, or intimidation threat might be created if an audit team member, or any of that individual's immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the audit client is also known to have a financial interest in that entity.

510.10 A2 Factors that are relevant in evaluating the level of such threats include:

- The role of the individual on the audit team.
- Whether ownership of the entity is closely or widely held.
- Whether the interest allows the investor to control or significantly influence the entity.
- The materiality of the financial interest.

510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the audit team member with the financial interest from the audit team.

510.10 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit team member.

Close Family

510.10 A5 A self-interest threat might be created if an audit team member knows that a close family member has a direct financial interest or a material indirect financial interest in the audit client.

510.10 A6 Factors that are relevant in evaluating the level of such a threat include:

- The nature of the relationship between the audit team member and the close family member.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest to the close family member.

510.10 A7 Examples of actions that might eliminate such a self-interest threat include:

- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.

- Removing the individual from the audit team.

510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit or review team member.

Other Individuals

510.10 A9 A self-interest threat might be created if an audit team member knows that a financial interest in the audit client is held by individuals such as:

- Partners and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R510.4, or their immediate family members.
- Individuals with a close personal relationship with an audit team member.

510.10 A10 Factors that are relevant in evaluating the level of such a threat include:

- The firm's organisational, operating and reporting structure.
- The nature of the relationship between the individual and the audit team member.

510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the audit team member with the personal relationship from the audit team.

510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:

- Excluding the audit team member from any significant decision-making concerning the audit engagement.
- Having an appropriate reviewer review the work of the audit team member.

Retirement Benefit Plan of a Firm or Network Firm

510.10 A13 A self-interest threat might be created if a retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in an audit client.

SECTION 511 LOANS AND GUARANTEES

Introduction

511.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

511.2 A loan or a guarantee of a loan with an audit client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

511.3 A1 This section contains references to the "materiality" of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Loans and Guarantees with an Audit Client

R511.4 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not make or guarantee a loan to an audit client unless the loan or guarantee is immaterial to:

(a) The firm, the network firm or the individual making the loan or guarantee, as applicable; and

(b) The client.

Loans and Guarantees with an Audit Client that is a Bank or Similar Institution

R511.5 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from an audit client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

511.5 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.

511.5 A2 Even if a firm or network firm receives a loan from an audit client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the audit client or firm receiving the loan.

511.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an audit team member, from a network firm that is not a beneficiary of the loan.

Deposits or Brokerage Accounts

R511.6 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an audit client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

Loans and Guarantees with an Audit Client that is Not a Bank or Similar Institution

R511.7 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not accept a loan from, or have a borrowing guaranteed by, an audit client that is not a bank or similar institution, unless the loan or guarantee is immaterial to:

(a) The firm, the network firm, or the individual receiving the loan or guarantee, as applicable; and

(b) The client.

SECTION 520 BUSINESS RELATIONSHIPS

Introduction

520.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

520.2 A close business relationship with an audit client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

520.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
- Arrangements under which the firm or a network firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm or a network firm's products or services.
- Arrangements under which the firm or a network firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

520.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the firm or a network firm licenses products or solutions to or from a client.

Firm, Network Firm, Audit Team Member or Immediate Family Business Relationships

R520.4 A firm, a network firm or an audit team member shall not have a close business relationship with an audit client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the audit team member, as applicable.

520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the audit client or its management and the immediate family of an audit team member.

Common Interests in Closely-Held Entities

R520.5 A firm, a network firm, an audit team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when an audit client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

(a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;

(b) The financial interest is immaterial to the investor or group of investors; and

(c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

Buying Goods or Services

520.6 A1 The purchase of goods and services, including the licencing of technology from an audit client by a firm, a network firm, an audit team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the audit team.

Providing, Selling, Reselling or Licencing Technology

520.7 A1 Where a firm or a network firm provides, sells, resells or licenses technology:

(a) To an audit client; or

(b) To an entity that provides services using such technology to audit clients of the firm or network firm,

depending on the facts and circumstances, the requirements and application material in Section 600 apply.

SECTION 521 FAMILY AND PERSONAL RELATIONSHIPS

Introduction

521.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

521.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

521.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an audit team member and a director or officer or, depending on their role, certain employees of the audit client.

521.3 A2 Factors that are relevant in evaluating the level of such threats include:

- The individual's responsibilities on the audit team.
- The role of the family member or other individual within the client, and the closeness of the relationship.

Immediate Family of an Audit Team Member

521.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an audit team member is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flows.

521.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position held by the immediate family member.
- The role of the audit team member.

521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit team.

521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the immediate family member.

R521.5 An individual shall not participate as an audit team member when any of that individual's immediate family:

(a) Is a director or officer of the audit client;

(b) Is an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion; or

(c) Was in such position during any period covered by the engagement or the financial statements.

Close Family of an Audit Team Member

521.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an audit team member is:

(a) A director or officer of the audit client; or

(b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

521.6 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the audit team member and the close family member.
- The position held by the close family member.
- The role of the audit team member.

521.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit team.

521.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the close family member.

Other Close Relationships of an Audit Team Member

R521.7 An audit team member shall consult in accordance with firm policies and procedures if the audit team member has a close relationship with an individual who is not an immediate or close family member, but who is:

(a) A director or officer of the audit client; or

(b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

521.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the individual and the audit team member.
- The position the individual holds with the client.
- The role of the audit team member.

521.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the audit team.

521.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the individual with whom the audit team member has a close relationship.

Relationships of Partners and Employees of the Firm

R521.8 Partners and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

(a) A partner or employee of the firm or network firm who is not an audit team member; and

(b) A director or officer of the audit client or an employee of the audit client in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

521.8 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the partner or employee of the firm with the audit team.
- The position of the partner or employee within the firm.
- The position the individual holds with the client.

521.8 A2 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit engagement.
- Having an appropriate reviewer review the relevant audit or review work performed.

SECTION 522 RECENT SERVICE WITH AN AUDIT CLIENT

Introduction

522.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

522.2 If an audit team member has recently served as a director or officer, or employee of the audit client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service During Period Covered by the Audit Report

R522.3 The audit team shall not include an individual who, during the period covered by the audit report:

(a) Had served as a director or officer of the audit client; or

(b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

Service Prior to Period Covered by the Audit Report

522.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the audit report, an audit team member:

(a) Had served as a director or officer of the audit client; or

(b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or financial statements on which the firm will express an opinion.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current audit engagement.

522.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the audit team member.

522.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the audit team member.

SECTION 523 SERVING AS A DIRECTOR OR OFFICER OF AN AUDIT CLIENT

Introduction

523.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

523.2 Serving as a director or officer of an audit client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service as Director or Officer

R523.3 -*[Amended by the NZAuASB. Refer to NZ R523.3.1]*

NZ R523.3.1 A partner or employee of the firm or a network firm shall not serve as a director, officer, liquidator or receiver of an audit client of the firm.

Service as Company Secretary

R523.4 A partner or employee of the firm or a network firm shall not serve as Company Secretary for an audit client of the firm, unless:

(a) This practice is specifically permitted under local law, professional rules or practice;

(b) Management makes all relevant decisions; and

(c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm or a network firm serves as Company Secretary for an audit client. (More information on providing non-assurance services to an audit client is set out in Section 600, *Provision of Non-assurance Services to an Audit Client*.)

SECTION 524 EMPLOYMENT WITH AN AUDIT CLIENT

Introduction

524.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

524.2 Employment relationships with an audit client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

All Audit Clients

524.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an audit team member or partner of the firm or a network firm:

- A director or officer of the audit client.
- An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

Former Partner or Audit Team Member Restrictions

R524.4 The firm shall ensure that no significant connection remains between the firm or a network firm and:

(a) A former partner who has joined an audit client of the firm; or

(b) A former audit team member who has joined the audit client,

if either has joined the audit client as:

(i) A director or officer; or

(ii) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

A significant connection remains between the firm or a network firm and the individual, unless:

(a) The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;

(b) Any amount owed to the individual is not material to the firm or the network firm; and

(c) The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.

524.4 A1 Even if the requirements of paragraph R524.4 are met, a familiarity or intimidation threat might still be created.

524.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm or network firm has joined an entity in one of the positions described in paragraph 524.3 A1 and the entity subsequently becomes an audit client of the firm.

524.4 A3 Factors that are relevant in evaluating the level of such threats include:

- The position the individual has taken at the client.

- Any involvement the individual will have with the audit team.
- The length of time since the individual was an audit team member or partner of the firm or network firm.
- The former position of the individual within the audit team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:

- Modifying the audit plan.
- Assigning to the audit team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former audit team member.

Audit Team Members Entering Employment with a Client

R524.5 A firm or network firm shall have policies and procedures that require audit team members to notify the firm or network firm when entering employment negotiations with an audit client.

524.5 A1 A self-interest threat is created when an audit team member participates in the audit engagement while knowing that the audit team member will, or might, join the client at some time in the future.

524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the audit team.

524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgements made by that individual while on the team.

Audit Clients that are Public Interest Entities

Key Audit Partners

R524.6 Subject to paragraph R524.8, if an individual who was a key audit partner with respect to an audit client that is a public interest entity joins the client as:

(a) A director or officer; or

(b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion,

independence is compromised unless, subsequent to the individual ceasing to be a key audit partner:

(i) The audit client has issued audited financial statements covering a period of not less than twelve months; and

(ii) The individual was not an audit team member with respect to the audit of those financial statements.

Senior or Managing Partner (Chief Executive or Equivalent) of the Firm

R524.7 Subject to paragraph R524.8, if an individual who was the Senior or Managing Partner (Chief Executive or equivalent) of the firm joins an audit client that is a public interest entity as:

(a) A director or officer; or

(b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion,

independence is compromised, unless twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm.

Business Combinations

R524.8 As an exception to paragraphs R524.6 and R524.7, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

(a) The position was not taken in contemplation of the business combination;

(b) Any benefits or payments due to the former partner from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm or network firm as applicable;

(c) The former partner does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and

(d) The firm discusses the former partner's position held with the audit client with those charged with governance.

SECTION 525 TEMPORARY PERSONNEL ASSIGNMENTS

Introduction

525.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

525.2 The loan of personnel to an audit client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to an audit client include:

- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
- Not including the loaned personnel as an audit team member might address a familiarity or advocacy threat.
- Not giving the loaned personnel audit responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.

525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to an audit client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.

R525.4 A firm or network firm shall not loan personnel to an audit client unless the firm of network firm is satisfied that:

(a) Such assistance is provided only for a short period of time;

(b) Such personnel will not assume management responsibilities and the audit client is responsible for directing and supervising the activities of such personnel;

(c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and

(d) Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.

SECTION 540 LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

Introduction

540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

540.2 When an individual is involved in an audit engagement, or a combination of audit and sustainability assurance engagements for the same client, over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

540.3 A1 References in this Section to key sustainability assurance leader, sustainability assurance team and sustainability assurance engagement are in the context of sustainability assurance engagements within the scope of the *International Independence Standards (New Zealand)* in Part 5.

All Audit Clients

540.4 A1 Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat might be created as a result of an individual's long association as an audit team member or sustainability assurance team member with:

(a) The audit client and its operations;

(b) The audit client's senior management; or

(c) The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.

540.4 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgement inappropriately.

540.4 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:

(a) In relation to the individual:

- The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
- How long the individual has been an engagement team member for the audit engagement or sustainability assurance engagement, and the nature of the roles performed.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other engagement team members.
- The closeness of the individual's personal relationship with senior management or those charged with governance.

- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) In relation to the audit client:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organisation which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

540.4 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

540.4 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an audit engagement, or a combination of audit and sustainability assurance engagements for the same client, over a long period of time would be rotating the individual off the audit team.

540.4 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an audit team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

R540.5 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

(a) Be a member of the engagement team for the audit engagement;

(b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or

(c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

R540.6 Where an individual is a member of both the audit team and the sustainability assurance team for the same client and the firm decides that the level of the threats created can only be addressed by rotating the individual off both the audit team and the sustainability assurance team, the firm shall, in addition to complying with paragraph R540.5, determine an appropriate period during which the individual shall not:

(a) Be a member of the engagement team for the sustainability assurance engagement;

(b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the sustainability assurance engagement; or

(c) Exert direct influence on the outcome of the sustainability assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.7 to R540.23 also apply.

Audit Clients that are Public Interest Entities

R540.7 Subject to paragraphs R540.9 to R540.11, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years[8] (the "time-on" period):

(a) The engagement partner;

(b) The individual appointed as responsible for performing the engagement quality review; or

(c) Any other key audit partner role; or

(d) A key sustainability assurance leader.

After the time-on period, the individual shall serve a "cooling-off" period in accordance with the provisions in paragraphs R540.13 to R540.21.

R540.8 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.7(a) to (d) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.13 to R540.15 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.8 A1 For example,

- A individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.17.
- An individual who served as engagement partner for two years for the audit of the sustainability assurance client's financial statements might be appointed as the individual responsible for performing the engagement quality review for the sustainability assurance engagement for five further years. Thereafter, that individual is required to cool off in accordance with paragraph R540.18.

R540.9 As an exception to paragraph R540.7, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.9 A1 For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner.

[8] Law, regulation or other standards may specify a shorter time-on period.

In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R540.10 If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner or a key sustainability assurance leader before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner or a key sustainability assurance leader for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in the capacity of a key audit partner before rotating off the audit engagement is seven years less the number of years already served. As an exception to paragraph R540.7, if the individual has served the audit client as a key audit partner or a key sustainability assurance leader for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in the capacity of a key audit partner with the concurrence of those charged with governance for a maximum of two additional years before rotating off the audit engagement.

R540.11 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible. As an exception to paragraph R540.7, if an independent regulatory body in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

Other Considerations Relating to the Time-on Period

R540.12 In evaluating the threats created by an individual's long association with an audit engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the audit engagement or the sustainability assurance engagement for the same client prior to the individual becoming a key audit partner.

540.12 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years.

Cooling-off Period

R540.13 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

R540.14 Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

R540.15 If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.13 and R540.14 for seven cumulative years, the cooling-off period shall be two consecutive years.

540.16 A1 The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by Professional and Ethical Standard 4 as a condition for

eligibility before the engagement partner can assume the role of engagement quality reviewer (see paragraph 325.8 A4).

Service in a combination of key audit partner or key sustainability assurance leader roles

R540.17 If the individual acted in a combination of key audit partner or key sustainability assurance leader roles and served as the engagement partner or engagement leader for four or more cumulative years, the cooling-off period shall be five consecutive years.

R540.18 Subject to paragraph R540.19(a), if the individual acted in a combination of key audit partner or key sustainability assurance leader roles and served as the key audit partner or key sustainability assurance leader responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.

R540.19 If an individual has acted in a combination of engagement partner, engagement leader and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:

(a) As an exception to paragraph R540.18, be five consecutive years where the individual has been the engagement partner or engagement leader for three or more years; or

(b) Be three consecutive years in the case of any other combination.

R540.20 If the individual acted in any combination of key audit partner or key sustainability assurance leader roles other than those addressed in paragraphs R540.17 to R540.19, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

R540.21 In determining the number of years that an individual has been a key audit partner or a key sustainability assurance leader as set out in paragraph R540.7, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on the audit engagement or a key sustainability assurance leader on the sustainability assurance engagement for the same client at a prior firm.

[Paragraph R540.22 intentionally left blank]

Restrictions on Activities During the Cooling-off Period

R540.23 For the duration of the relevant cooling-off period, the individual shall not:

(a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review for the audit engagement or the sustainability assurance engagement;

(b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement or sustainability assurance engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit engagement or sustainability assurance engagement);

(c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or

(d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services that would result in the individual:

(i) Having significant or frequent interaction with senior management or those charged with governance; or

(ii) Exerting direct influence on the outcome of the audit engagement or sustainability assurance engagement.

540.23 A1 The provisions of paragraph R540.23 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Senior or Managing Partner (Chief Executive or equivalent).

SECTION 600 PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

Introduction

600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.

600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to audit clients and indicate the types of threats that might be created as a result.

600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to an audit client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.

600.5 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to an audit client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.

600.6 The requirements and application material in this section apply where a firm or a network firm:

(a) Uses technology to provide a non-assurance service to an audit client; or

(b) Provides, sells, resells or licenses technology resulting in the provision of a non-assurance service by the firm or a network firm:

(i) To an audit client; or

(ii) To an entity that provides services using such technology to audit clients of the firm or network firm.

Requirements and Application Material

General

Non-Assurance Services Provisions in Laws or Regulations

600.6 A1 Paragraphs R100.6 to 100.7 A1 set out requirements and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to audit clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions.

Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service

600.7 A1 When a firm or a network firm provides a non-assurance service to an audit client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R400.21 have been complied with.

Accepting an Engagement to Provide a Non-Assurance Service

R600.8 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

Identifying and Evaluating Threats

All Audit Clients

600.9 A1 A description of the categories of threats that might arise when a firm or a network firm provides a non-assurance service to an audit client is set out in paragraph 120.6 A3.

600.9 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgement. (Ref: Para. R400.20 to R400.21).
- Whether the outcome of the service will affect the accounting records or matters reflected in the financial statements on which the firm will express an opinion, and, if so:
    - The extent to which the outcome of the service will have a material effect on the financial statements.
    - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
    - Accounting records or financial statements on which the firm will express an opinion.
    - Internal controls over financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.

- The fee relating to the provision of the non-assurance service.

600.9 A3 Subsections 601 to 610 include examples of additional factors that are relevant in identifying threats to independence created by providing certain non-assurance services, and evaluating the level of such threats.

Materiality in relation to financial statements

600.10 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an audit client. Subsections 601 to 610 refer to materiality in relation to an audit client's financial statements. The concept of materiality in relation to an audit is addressed in ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, and in relation to a review in ISRE (NZ) 2400, *Engagements to Review Historical Financial Statements*. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

600.10 A2 Where the Code expressly prohibits the provision of a non-assurance service to an audit client, a firm or a network firm is not permitted to provide that service, regardless of the materiality of the outcome or results of the non-assurance service on the financial statements on which the firm will express an opinion.

Providing advice and recommendations

600.11 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph R600.14. Where the audit client is not a public interest entity and a self-review threat is identified, the firm is required to apply the conceptual framework to evaluate and address the threat. If the audit client is a public interest entity, paragraphs R600.16 and R600.17 apply.

Multiple non-assurance services provided to the same audit client

R600.12 When a firm or a network firm provides multiple non-assurance services to an audit client, the firm shall consider whether, in addition to the threats created by each service individually, the combined effect of such services creates or impacts threats to independence.

600.12 A1 In addition to paragraph 600.9 A2, factors that are relevant in a firm's evaluation of the level of threats to independence created where multiple non-assurance services are provided to an audit client might include whether:

- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.
- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the audit client.

Self-review threats

600.13 A1 When a firm or a network firm provides a non-assurance service to an audit client, there might be a risk of the firm auditing its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgement made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the audit team will rely when forming a judgement as part of an audit.

R600.14 Before providing a non-assurance service to an audit client, a firm or a network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

(a) The results of the service will form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion; and

(b) In the course of the audit of those financial statements on which the firm will express an opinion, the audit team will evaluate or rely on any judgements made or activities performed by the firm or network firm when providing the service.

Audit Clients that are Public Interest Entities

600.15 A1 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an audit client that is a public interest entity.

600.15 A2 Where the provision of a non-assurance service to an audit client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

Self-review threats

R600.16 A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity if the provision of that service might create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion. (Ref: Para. 600.13 A1 and R600.14).

Providing advice and recommendations

R600.17 As an exception to paragraph R600.16, a firm or a network firm may provide advice and recommendations to an audit client that is a public interest entity in relation to information or matters arising in the course of an audit provided that the firm:

(a) Does not assume a management responsibility (Ref: Para. R400.20 and R400.21); and

(b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

600.17 A1 Examples of advice and recommendations that might be provided in relation to information or matters arising in the course of an audit include:

- Advising on accounting and financial reporting standards or policies and financial statement disclosure requirements.
- Advising on the appropriateness of financial and accounting control and the methods used in determining the stated amounts in the financial statements and related disclosures.
- Proposing adjusting journal entries arising from audit findings.
- Discussing findings on internal controls over financial reporting and processes and recommending improvements.
- Discussing how to resolve account reconciliation problems.

- Advising on compliance with group accounting policies.

Addressing Threats

All Audit Clients

600.18 A1 Paragraphs R120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

600.18 A2 Threats to independence created by providing a non-assurance service or multiple services to an audit client vary depending on the facts and circumstances of the audit engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

600.18 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.
- Obtaining pre-clearance of the outcome of the service from an appropriate authority (for example, a tax authority).

600.18 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to an audit client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm or network firm to:

(a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threats;

(b) Decline or end the service that creates the threats that cannot be eliminated or reduced to an acceptable level; or

(c) End the audit engagement.

Communication with Those Charged With Governance Regarding Non-Assurance Services

All Audit Clients

600.19 A1 Paragraphs 400.40 A1 and 400.40 A2 are relevant to a firm's communication with those charged with governance in relation to the provision of non-assurance services.

Audit Clients that are Public Interest Entities

600.20 A1 Paragraphs R600.21 to R600.23 require a firm to communicate with those charged with governance of a public interest entity before the firm or network firm provides non-assurance services to entities within the corporate structure of which the public interest entity forms part that might create threats to the firm's independence from the public interest entity. The purpose of the communication is to enable those charged with governance of the public interest entity to have effective oversight of the independence of the firm that audits the financial statements of that public interest entity.

600.20 A2 To facilitate compliance with such requirements, a firm might agree with those charged with governance of the public interest entity a process that addresses when and with whom the firm is to communicate. Such a process might:

- Establish the procedure for the provision of information about a proposed non-assurance service which might be on an individual engagement basis, under a general policy, or on any other agreed basis.

- Identify the entities to which the process would apply, which might include other public interest entities within the corporate structure.
- Identify any services that can be provided to the entities identified in paragraph R600.21 without specific approval of those charged with governance if they agree as a general policy that these services are not prohibited under this section and would not create threats to the firm's independence or, if any such threats are created, they would be at an acceptable level.
- Establish how those charged with governance of multiple public interest entities within the same corporate structure have determined that authority for approving services is to be allocated.
- Establish a procedure to be followed where the provision of information necessary for those charged with governance to evaluate whether a proposed service might create a threat to the firm's independence is prohibited or limited by professional standards, laws or regulations, or might result in the disclosure of sensitive or confidential information.
- Specify how any issues not covered by the process might be resolved.

R600.21 Before a firm that audits the financial statements of a public interest entity, or a network firm accepts an engagement to provide a non-assurance service to:

(A) That public interest entity;

(B) Any entity that controls, directly or indirectly, that public interest entity; or

(C) Any entity that is controlled directly or indirectly by that public interest entity,

the firm shall, unless already addressed when establishing a process agreed with those charged with governance:

(a) Inform those charged with governance of the public interest entity that the firm has determined that the provision of the service:

(i) Is not prohibited; and

(ii) Will not create a threat to the firm's independence as auditor of the public interest entity or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and

(b) Provide those charged with governance of the public interest entity with information to enable them to make an informed assessment about the impact of the provision of the service on the firm's independence.

600.21 A1 Examples of information that might be provided to those charged with governance of the public interest entity in relation to a particular non-assurance service include:

- The nature and scope of the service to be provided.
- The basis and amount of the proposed fee.
- Where the firm has identified any threats to independence that might be created by the provision of the proposed service, the basis for the firm's assessment that the threats are at an acceptable level or, if not, the actions the firm or network firm will take to eliminate or reduce any threats to independence to an acceptable level.
- Whether the combined effect of providing multiple services creates threats to independence or changes the level of previously identified threats.

R600.22 A firm or a network firm shall not provide a non-assurance service to any of the entities referred to in paragraph R600.21 unless those charged with governance of the public interest entity have concurred either under a process agreed with those charged with governance or in relation to a specific service with:

(a) The firm's conclusion that the provision of the service will not create a threat to the firm's independence as auditor of the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated, or reduced to an acceptable level; and

(b) The provision of that service.

R600.23 As an exception to paragraphs R600.21 and R600.22, where a firm is prohibited by applicable professional standards, laws or regulations from providing information about the proposed non-assurance service to those charged with governance of the public interest entity, or where the provision of such information would result in disclosure of sensitive or confidential information, the firm may provide the proposed service provided that:

(a) The firm provides such information as it is able without breaching its legal or professional obligations;

(b) The firm informs those charged with governance of the public interest entity that the provision of the service will not create a threat to the firm's independence from the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and

(c) Those charged with governance do not disagree with the firm's conclusion in (b).

R600.24 The firm or the network firm, having taken into account any matters raised by those charged with governance of the audit client that is a public interest entity or by the entity referred to in paragraph R600.21 that is the recipient of the proposed service, shall decline the non-assurance service or the firm shall end the audit engagement if:

(a) The firm or the network firm is not permitted to provide any information to those charged with governance of the audit client that is a public interest entity, unless such a situation is addressed in a process agreed in advance with those charged with governance; or

(b) Those charged with governance of an audit client that is a public interest entity disagree with the firm's conclusion that the provision of the service will not create a threat to the firm's independence from the client or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.

Audit Client that Later Becomes a Public Interest Entity

R600.25 A non-assurance service provided, either currently or previously, by a firm or a network firm to an audit client compromises the firm's independence when the client becomes a public interest entity unless:

(a) The previous non-assurance service complies with the provisions of this section that relate to audit clients that are not public interest entities;

(b) Non-assurance services currently in progress that are not permitted under this section for audit clients that are public interest entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a public interest entity; and

(c) The firm and those charged with governance of the client that becomes a public interest entity agree and take further actions to address any threats to independence that are not at an acceptable level.

600.25 A1 Examples of actions that the firm might recommend to the audit client include engaging another firm to:

- Review or re-perform the affected audit work to the extent necessary.
- Evaluate the results of the non-assurance service or re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Considerations for Certain Related Entities

R600.26 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit clients. As an exception to those requirements and the requirement in paragraph R400.20, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:

(a) An entity that has direct or indirect control over the client;

(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; or

(c) An entity which is under common control with the client,

provided that all of the following conditions are met:

(i) The firm or a network firm does not express an opinion on the financial statements of the related entity;

(ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion;

(iii) The services do not create a self-review threat; and

(iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

Documentation

600.27 A1 Documentation of the firm's conclusions regarding compliance with this section in accordance with paragraphs R400.60 and 400.60 A1 might include:

- Key elements of the firm's understanding of the nature of the non-assurance service to be provided and whether and how the service might impact the financial statements on which the firm will express an opinion.
- The nature of any threat to independence that is created by providing the service to the audit client, including whether the results of the service will be subject to audit procedures.
- The extent of management's involvement in the provision and oversight of the proposed non-assurance service.
- Any safeguards that are applied, or other actions taken to address a threat to independence.

- The firm's rationale for determining that the service is not prohibited and that any identified threat to independence is at an acceptable level.
- In relation to the provision of a proposed non-assurance service to the entities referred to in paragraph R600.21, the steps taken to comply with paragraphs R600.21 to R600.23.

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing accounting and bookkeeping services to an audit client.

Requirements and Application Material

General

601.2 A1 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

- Determining accounting policies and the accounting treatment in accordance with those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
  - Purchase orders.
  - Payroll time records.
  - Customer orders.
- Originating or changing journal entries.
- Determining or approving the account classifications of transactions.

Description of Service

601.3 A1 Accounting and bookkeeping services comprise a broad range of services including:

- Preparing accounting records or financial statements.
- Recording transactions.
- Providing payroll services.
- Resolving account reconciliation problems.
- Converting existing financial statements from one financial reporting framework to another.

Potential Threats Arising from the Provision of Accounting and Bookkeeping Services

All Audit Clients

601.4 A1 Providing accounting and bookkeeping services to an audit client creates a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion.

Audit Clients that are Not Public Interest Entities

R601.5 A firm or a network firm shall not provide to an audit client that is not a public interest entity accounting and bookkeeping services, including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements, unless:

(a) The services are of a routine or mechanical nature; and

(b) The firm addresses any threats that are not at an acceptable level.

601.5 A1 Accounting and bookkeeping services that are routine or mechanical:

(a) Involve information, data or material in relation to which the client has made any judgements or decisions that might be necessary; and

(b) Require little or no professional judgement.

601.5 A2 Accounting and bookkeeping services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include the activities performed by, and the output of, the technology, and whether the technology provides an automated service that is based on or requires the expertise or judgement of the firm or network firm.

601.5 A3 Examples of services, whether manual or automated, that might be regarded as routine or mechanical include:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

The firm or a network firm may provide such services to audit clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.21 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5 (b).

601.5 A4 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine or mechanical nature to an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

Audit Clients that are Public Interest Entities

R601.6 A firm or a network firm shall not provide accounting and bookkeeping services to an audit client that is a public interest entity.

R601.7 As an exception to paragraph R601.6, a firm or a network firm may prepare statutory financial statements for a related entity of a public interest entity audit client included in subparagraph (c) or (d) of the definition of a related entity provided that:

(a) The audit report on the group financial statements of the public interest entity has been issued;

(b) The firm or network firm does not assume management responsibility and applies the conceptual framework to identify, evaluate and address threats to independence;

(c) The firm or network firm does not prepare the accounting records underlying the statutory financial statements of the related entity and those financial statements are based on client approved information; and

(d) The statutory financial statements of the related entity will not form the basis of future group financial statements of that public interest entity.

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing administrative services.

Application Material

Description of Service

602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.

602.2 A2 Examples of administrative services include:

- Word processing or document formatting.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates and advising an audit client of those dates.

Potential Threats Arising from the Provision of Administrative Services

All Audit Clients

602.3 A1 Providing administrative services to an audit client does not usually create a threat when such services are clerical in nature and require little to no professional judgement.

SUBSECTION 603 – VALUATION SERVICES

Introduction

603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing valuation services to an audit client.

Requirements and Application Material

Description of Service

603.2 A1 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques and the combination of both to compute a certain value, or range of values, for an asset, a liability or for the whole or part of an entity.

603.2 A2 If a firm or a network firm is requested to perform a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes and the results of the valuation have no effect on the accounting records or the financial statements other than through accounting entries related to tax, the requirements and application material set out in paragraphs 604.17 A1 to 604.19 A1, relating to such services, apply.

Potential Threats Arising from the Provision of Valuation Services

All Audit Clients

603.3 A1 Providing a valuation service to an audit client might create a self-review threat when there is a risk that the results of the service will affect the accounting records or the financial statements on which the firm will express an opinion. Such a service might also create an advocacy threat.

603.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing valuation services to an audit client, and evaluating the level of such threats include:

- The use and purpose of the valuation report.
- Whether the valuation report will be made public.
- The extent to which the valuation methodology is supported by law or regulation, other precedent or established practice.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgement.
- The degree of subjectivity inherent in the item for valuations involving standard or established methodologies.
- Whether the valuation will have a material effect on the financial statements.
- The extent of the disclosures related to the valuation in the financial statements.
- The volatility of the amounts involved as a result of dependence on future events.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R603.5 applies.

Audit Clients that are Not Public Interest Entities

603.3 A3 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing a valuation service to an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

R603.4 A firm or a network firm shall not provide a valuation service to an audit client that is not a public interest entity if:

(a) The valuation involves a significant degree of subjectivity; and

(b) The valuation will have a material effect on the financial statements on which the firm will express an opinion.

603.4 A1 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are established by law or regulation or when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

Audit Clients that are Public Interest Entities

Self-review Threats

R603.5 A firm or a network firm shall not provide a valuation service to an audit client that is a public interest entity if the provision of such valuation service might create a self-review threat. (Ref: Para. R600.14 and R600.16).

Advocacy Threats

603.5 A1 An example of an action that might be a safeguard to address an advocacy threat created by providing a valuation service to an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.

SUBSECTION 604 – TAX SERVICES

Introduction

604.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a tax service to an audit client.

Requirements and Application Material

Description of Service

604.2 A1 Tax services comprise a broad range of services. This subsection deals specifically with:

- Tax return preparation.
- Tax calculations for the purpose of preparing accounting entries.
- Tax advisory services.
- Tax planning services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

604.2 A2 It is possible to consider tax services under broad headings, such as tax planning or compliance. However, such services are often interrelated in practice and might be combined with other types of non-assurance services provided by the firm such as corporate finance services. It is, therefore, impracticable to categorise generically the threats to which specific tax services give rise.

Potential Threats Arising from the Provision of Tax Services

604.3 A1 Providing tax services to an audit client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial

statements on which the firm will express an opinion. Such services might also create an advocacy threat.

604.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing any tax service to an audit client, and evaluating the level of such threats include:

- The particular characteristics of the engagement.
- The level of tax expertise of the client's employees.
- The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
- The complexity of the relevant tax regime and the degree of judgement necessary in applying it.

All Audit Clients

R604.4 A firm or a network firm shall not provide a tax service or recommend a transaction to an audit client if the service or transaction relates to marketing, planning, or opining in favour of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.

604.4 A1 Unless the tax treatment has a basis in applicable tax law or regulation that the firm is confident is likely to prevail, providing the non-assurance service described in paragraph R604.4 creates self-interest, self-review and advocacy threats that cannot be eliminated and safeguards are not capable of being applied to reduce such threats to an acceptable level.

A. Tax Return Preparation

Description of Service

604.5 A1 Tax return preparation services include:

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

Potential Threats Arising from the Provision of Tax Return Preparation Services

All Audit Clients

604.6 A1 Providing tax return preparation services does not usually create a threat because:

(a) Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice; and

(b) Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

B. Tax Calculations for the Purpose of Preparing Accounting Entries

Description of Service

604.7 A1 Tax calculation services involves the preparation of calculations of current and deferred tax liabilities or assets for the purpose of preparing accounting entries supporting tax assets or liabilities in the financial statements of the audit client.

Potential Threats Arising from the Provision of Tax Calculation Services

All Audit Clients

604.8 A1 Preparing tax calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that support such balances creates a self-review threat.

Audit Clients that are Not Public Interest Entities

604.9 A1 In addition to the factors in paragraph 604.3 A2, a factor that is relevant in evaluating the level of self-review threat created when preparing such calculations for an audit client is whether the calculation might have a material effect on the financial statements on which the firm will express an opinion.

604.9 A2 Examples of actions that might be safeguards to address such a self-review threat when the audit client is not a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

Audit Clients that are Public Interest Entities

R604.10 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity. (Ref: Para. R600.14 and R600.16).

C. Tax Advisory and Tax Planning Services

Description of Service

604.11 A1 Tax advisory and tax planning services comprise a broad range of services, such as advising the audit client how to structure its affairs in a tax efficient manner or advising on the application of a tax law or regulation.

Potential Threats Arising from the Provision of Tax Advisory and Tax Planning Services

All Audit Clients

604.12 A1 Providing tax advisory and tax planning services to an audit client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

604.12 A2 Providing tax advisory and tax planning services will not create a self-review threat if such services:

(a) Are supported by a tax authority or other precedent;

(b) Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or

(c) Have a basis in tax law that the firm is confident is likely to prevail.

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.

604.12 A3 In addition to paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services to audit clients, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements.
- Whether the tax treatment is supported by a ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.
- The extent to which the outcome of the tax advice might have a material effect on the financial statements.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R604.15 applies.

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.

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

R604.13 A firm or a network firm shall not provide tax advisory and tax planning services to an audit client when:

(a) The effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements; and

(b) The audit team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit Clients that are Not Public Interest Entities

604.14 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing tax advisory and tax planning services to an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service, review the audit work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Audit Clients that are Public Interest Entities

Self-review Threats

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

Advocacy Threats

604.15 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing tax advisory and tax planning services to an audit client that is a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

D. Tax Services Involving Valuations

Description of Service

604.16 A1 The provision of tax services involving valuations might arise in a range of circumstances including:

- Merger and acquisition transactions.
- Group restructurings and corporate reorganisations.
- Transfer pricing studies.
- Stock-based compensation arrangements.

Potential Threats Arising from the Provision of Tax Services involving Valuations

All Audit Clients

604.17 A1 Providing a valuation for tax purposes to an audit client might create a self-review threat when there is a risk that the results of the service will affect the accounting records or the financial statements on which the firm will express an opinion. Such a service might also create an advocacy threat.

604.17 A2 When a firm or a network firm performs a valuation for tax purposes to assist an audit client with its tax reporting obligations or for tax planning purposes, the result of the valuation might:

(a) Have no effect on the accounting records or the financial statements other than through accounting entries related to tax. In such situations, the requirements and application material set out in this subsection apply.

(b) Affect the accounting records or the financial statements in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets. In such situations, the requirements and application material set out in subsection 603 relating to valuation services apply.

604.17 A3 Performing a valuation for tax purposes for an audit client will not create a self-review threat if:

(a) The underlying assumptions are either established by law or regulation, or are widely accepted; or

(b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority.

Audit Clients that are Not Public Interest Entities

604.18 A1 A firm or a network firm might perform a valuation for tax purposes for an audit client that is not a public interest entity where the result of the valuation only affects the accounting records or the financial statements through accounting entries related to tax. This would not usually create threats if the effect on the financial statements is

immaterial or the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.

604.18 A2 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the financial statements, in addition to paragraph 604.3 A2, the following factors are relevant in identifying self-review or advocacy threats created by providing those services to an audit client that is not a public interest entity, and evaluating the level of such threats:

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
- The degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

604.18 A3 Examples of actions that might be safeguards to address such threats for an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Audit Clients that are Public Interest Entities

Self-review Threats

R604.19 A firm or a network firm shall not perform a valuation for tax purposes for an audit client that is a public interest entity if the provision of that service might create a self-review threat. (Ref: Para. R600.14, R600.16, 604.17 A3).

Advocacy Threats

604.19 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing a valuation for tax purposes for an audit client that is a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

E. Assistance in the Resolution of Tax Disputes

Description of Service

604.20 A1 A non-assurance service to provide assistance to an audit client in the resolution of tax disputes might arise from a tax authority's consideration of tax calculations and treatments. Such a service might include, for example, providing assistance when the tax authorities have notified the client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding before a tribunal or court.

Potential Threats Arising from the Provision of Assistance in the Resolution of Tax Disputes

All Audit Clients

604.21 A1 Providing assistance in the resolution of a tax dispute to an audit client might create a self-review threat when there is a risk that the results of the service will affect the

accounting records or the financial statements on which the firm will express an opinion. Such a service might also create an advocacy threat.

604.22 A1 In addition to those identified in paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by assisting an audit client in the resolution of tax disputes, and evaluating the level of such threats include:

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion.
- Whether the firm or network firm provided the advice that is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R604.24 applies.

Audit Clients that are Not Public Interest Entities

604.23 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by assisting an audit client that is not a public interest entity in the resolution of tax disputes include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed might address a self-review threat.

Audit Clients that are Public Interest Entities

Self-review Threats

R604.24 A firm or a network firm shall not provide assistance in the resolution of tax disputes to an audit client that is a public interest entity if the provision of that assistance might create a self-review threat. (Ref: Para. R600.14 and R600.16).

Advocacy Threats

604.24 A1 An example of an action that might be a safeguard to address an advocacy threat for an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.

Resolution of Tax Matters Including Acting as an Advocate Before a Tribunal or Court

Audit Clients that are Not Public Interest Entities

R604.25 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit client that is not a public interest entity if:

(a) The services involve acting as an advocate for the audit client before a tribunal or court in the resolution of a tax matter; and

(b) The amounts involved are material to the financial statements on which the firm will express an opinion.

Audit Clients that are Public Interest Entities

R604.26 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit client that is a public interest entity if the services involve acting as an advocate for the audit client before a tribunal or court.

604.27 A1 Paragraphs R604.25 and R604.26 do not preclude a firm or a network firm from having a continuing advisory role in relation to the matter that is being heard before a tribunal or court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analysing the tax issues related to the matter.

604.27 A2 What constitutes a "tribunal or court" depends on how tax proceedings are heard in the particular jurisdiction.

SUBSECTION 605 – INTERNAL AUDIT SERVICES

Introduction

605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing an internal audit service to an audit client.

Requirements and Application Material

Description of Service

605.2 A1 Internal audit services comprise a broad range of activities and might involve assisting the audit client in the performance of one or more aspects of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information by:
  - Reviewing the means used to identify, measure, classify and report financial and operating information.
  - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity.
- Reviewing compliance with:
  - Laws, regulations and other external requirements.
  - Management policies, directives and other internal requirements.

605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of those charged with governance as well as the needs and expectations of management. As they might involve matters that are operational in nature, they do not necessarily relate to matters that will be subject to consideration in relation to the audit of the financial statements.

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

R605.3 Paragraph R400.20 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to an audit client, the firm shall be satisfied that:

(a) The client designates an appropriate and competent resource, who reports to those charged with governance to:

(i) Be responsible at all times for internal audit activities; and

(ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;

(b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;

(c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;

(d) The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and

(e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

605.3 A1 Performing part of the client's internal audit activities increases the possibility that individuals within the firm or the network firm providing internal audit services will assume a management responsibility.

605.3 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

Potential Threats Arising from the Provision of Internal Audit Services

All Audit Clients

605.4 A1 Providing internal audit services to an audit client might create a self-review threat when there is a risk that the results of the services impact the audit of the financial statements on which the firm will express an opinion.

605.4 A2 When a firm uses the work of an internal audit function in an audit engagement, ISAs (NZ) require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or a network firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This might create a self-review threat because it is possible that the engagement team will use the results of the internal audit service for purposes of the audit engagement without:

(a) Appropriately evaluating those results; or

(b) Exercising the same level of professional scepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

605.4 A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to an audit client, and evaluating the level of such a threat include:

- The materiality of the related financial statements amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.
- The degree of reliance that the engagement team will place on the work of the internal audit service.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R605.6 applies.

Audit Clients that are Not Public Interest Entities

605.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an internal audit service to an audit client that is not a public interest entity is using professionals who are not audit team members to perform the service.

Audit Clients that are Public Interest Entities

R605.6 A firm or a network firm shall not provide internal audit services to an audit client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14 and R600.16).

605.6 A1 Examples of the services that are prohibited under paragraph R605.6 include internal audit services that relate to:

- The internal controls over financial reporting.
- Financial accounting systems that generate information for the client's accounting records or financial statements on which the firm will express an opinion.
- Amounts or disclosures that relate to the financial statements on which the firm will express an opinion.

SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to an audit client.

Requirements and Application Material

Description of Service

606.2 A1 IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.
- Implementing IT systems, including installation, configuration, interfacing, or customisation.
- Operating, maintaining, monitoring, updating or upgrading IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data.

606.2 A2 The IT systems might:

(a) Aggregate source data;

(b) Form part of the internal control over financial reporting; or

(c) Generate information that affects the accounting records or financial statements, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the audit client's accounting records or the internal control over financial reporting or financial statements.

Risk of Assuming Management Responsibility When Providing an IT Systems Service

R606.3 Paragraph R400.20 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an audit client, the firm or network firm shall be satisfied that:

(a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;

(b) The client, through a competent individual (or individuals), preferably within senior management, makes all management decisions that are the proper responsibility of management with respect to the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT systems;

(c) The client evaluates the adequacy and results of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT system; and

(d) The client is responsible for operating the IT system and for the data it generates and uses.

606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Stores data or manages (directly or indirectly) the hosting of data on behalf of the audit client. Such services include:

- Acting as the only access to a financial or non-financial information system of the audit client.
- Taking custody of or storing the audit client's data or records such that the audit client's data or records are otherwise incomplete.
- Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the audit client's data or records.

- Operates, maintains, or monitors the audit client's IT systems, network or website.

606.3 A2 The collection, receipt, transmission and retention of data provided by an audit client in the course of an audit or to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

Potential Threats Arising from the Provision of IT Systems Services

All Audit Clients

606.4 A1 Providing IT systems services to an audit client might create a self-review threat when there is a risk that the results of the services will affect the audit of the financial statements on which the firm will express an opinion.

606.4 A2 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to an audit client, and evaluating the level of such a threat include:

- The nature of the service.
- The nature of the client's IT systems and the extent to which the IT systems service impacts or interacts with the client's accounting records, internal controls over financial reporting or financial statements.
- The degree of reliance that will be placed on the particular IT systems as part of the audit.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R606.6 applies.

606.4 A3 Examples of IT systems services that create a self-review threat when they form part of or affect an audit client's accounting records or system of internal control over financial reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems, including those related to cybersecurity.
- Supporting an audit client's IT systems, including network and software applications.
- Implementing accounting or financial information reporting software, whether or not it was developed by the firm or a network firm.

Audit Clients that are Not Public Interest Entities

606.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an IT systems service to an audit client that is not a public interest entity is using professionals who are not audit team members to perform the service.

Audit Clients that are Public Interest Entities

R606.6 A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the provision of such services might create a self-review threat (Ref: Para. R600.14 and R600.16).

SUBSECTION 607 – LITIGATION SUPPORT SERVICES

Introduction

607.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a litigation support service to an audit client.

Requirements and Application Material

Description of Service

607.2 A1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.
- Forensic or investigative services.

Potential Threats Arising from the Provision of Litigation Support Services

All Audit Clients

607.3 A1 Providing litigation support services to an audit client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

607.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing litigation support services to an audit client, and evaluating the level of such threats include:

- The legal and regulatory environment in which the service is provided.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service might involve estimating, or might affect the estimation of, damages or other amounts that might have a material effect on the financial statements on which the firm will express an opinion.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R607.6 applies.

607.4 A2 If a firm or a network firm provides a litigation support service to an audit client and the service might involve estimating, or might affect the estimation of, damages or other amounts that affect the financial statements on which the firm will express an opinion, the requirements and application material set out in Subsection 603 related to valuation services apply.

Audit Clients that are Not Public Interest Entities

607.5 A1 An example of an action that might be a safeguard to address a self-review or advocacy threat created by providing a litigation support service to an audit client that is not a public interest entity is using a professional who was not an audit team member to perform the service.

Audit Clients that are Public Interest Entities

Self-review Threats

R607.6 A firm or a network firm shall not provide litigation support services to an audit client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14 and R600.16).

607.6 A1 An example of a service that is prohibited because it might create a self-review threat is providing advice in connection with a legal proceeding where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the financial statements on which the firm will express an opinion.

Advocacy Threats

607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing a litigation support service to an audit client that is a public interest entity is using a professional who was not an audit team member to perform the service.

Acting as a Witness

All Audit Clients

607.7 A1 A professional within the firm or the network firm might give evidence to a tribunal or court as a witness of fact or as an expert witness.

I. A witness of fact is an individual who gives evidence to a tribunal or court based on his or her direct knowledge of facts or events.

II. An expert witness is an individual who gives evidence, including opinions on matters, to a tribunal or court based on that individual's expertise.

607.7 A2 A threat to independence is not created when an individual, in relation to a matter that involves an audit client, acts as a witness of fact and in the course of doing so provides an opinion within the individual's area of expertise in response to a question asked in the course of giving factual evidence.

607.7 A3 The advocacy threat created when acting as an expert witness on behalf of an audit client is at an acceptable level if a firm or a network firm is:

(a) Appointed by a tribunal or court to act as an expert witness in a matter involving a client; or

(b) Engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided that:

(i) The firm's audit clients constitute less than 20% of the members of the class or group (in number and in value);

(ii) No audit client is designated to lead the class or group; and

(iii) No audit client is authorised by the class or group to determine the nature and scope of the services to be provided by the firm or the terms on which such services are to be provided.

Audit Clients that are Not Public Interest Entities

607.8 A1 An example of an action that might be a safeguard to address an advocacy threat for an audit client that is not a public interest entity is using a professional to perform the service who is not, and has not been, an audit team member.

Audit Clients that are Public Interest Entities

R607.9 A firm or a network firm, or an individual within a firm or a network firm, shall not act for an audit client that is a public interest entity as an expert witness in a matter unless the circumstances set out in paragraph 607.7 A3 apply.

SUBSECTION 608 – LEGAL SERVICES

Introduction

608.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a legal service to an audit client.

Requirements and Application Material

Description of Service

608.2 A1 Legal services are defined as any services for which the individual providing the services must either:

(a) Have the required legal training to practice law; or

(b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

608.2 A2 This subsection deals specifically with:

- Providing legal advice.
- Acting as general counsel.
- Acting in an advocacy role.

Potential Threats Arising from Providing Legal Services

All Audit Clients

608.3 A1 Providing legal services to an audit client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

A. Providing Legal Advice

Description of Service

608.4 A1 Depending on the jurisdiction, providing legal advice might include a wide and diversified range of service areas including both corporate and commercial services to audit clients, such as:

- Contract support.
- Supporting an audit client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting an audit client's internal legal department.
- Legal due diligence and restructuring.

Potential Threats Arising from Providing Legal Advice

All Audit Clients

608.5 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing legal advice to an audit client, and evaluating the level of such threats include:

- The materiality of the specific matter in relation to the client's financial statements.
- The complexity of the legal matter and the degree of judgement necessary to provide the service.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R608.7 applies.

608.5 A2 Examples of legal advice that might create a self-review threat include:

- Estimating a potential loss arising from a lawsuit for the purpose of recording a provision in the client's financial statements.
- Interpreting provisions in contracts that might give rise to liabilities reflected in the client's financial statements.

608.5 A3 Negotiating on behalf of an audit client might create an advocacy threat or might result in the firm or network firm assuming a management responsibility.

Audit Clients that are Not Public Interest Entities

608.6 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing legal advice to an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service might address a self-review or advocacy threat.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed might address a self-review threat.

Audit Clients that are Public Interest Entities

Self-review Threats

R608.7 A firm or a network firm shall not provide legal advice to an audit client that is a public interest entity if the provision of such a service might create a self-review threat. (Ref: Para. R600.14 and R600.16).

Advocacy Threats

608.8 A1 The considerations in paragraphs 608.5 A1 and 608.5 A3 to 608.6 A1 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advice to an audit client that is a public interest entity.

B. Acting as General Counsel

All Audit Clients

R608.9 A partner or employee of the firm or the network firm shall not serve as General Counsel of an audit client.

608.9 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

C. Acting in an Advocacy Role

Potential Threats Arising from Acting in an Advocacy Role Before a Tribunal or Court

Audit Clients that are Not Public Interest Entities

R608.10 A firm or a network firm shall not act in an advocacy role for an audit client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court when the amounts involved are material to the financial statements on which the firm will express an opinion.

608.10 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed.

Audit Clients that are Public Interest Entities

R608.11 A firm or a network firm shall not act in an advocacy role for an audit client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

SUBSECTION 609 – RECRUITING SERVICES

Introduction

609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a recruiting service to an audit client.

Requirements and Application Material

Description of Service

609.2 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
  - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
  - Undertaking reference checks of prospective candidates.
  - Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Risk of Assuming Management Responsibility When Providing a Recruiting Service

R609.3 Paragraph R400.20 precludes a firm or a network firm from assuming a management responsibility. When providing a recruiting service to an audit client, the firm shall be satisfied that:

(a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and

(b) The client makes all management decisions with respect to the hiring process, including:

- Determining the suitability of prospective candidates and selecting suitable candidates for the position.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Potential Threats Arising from Providing Recruiting Services

All Audit Clients

609.4 A1 Providing recruiting services to an audit client might create a self-interest, familiarity or intimidation threat.

609.4 A2 Providing the following services does not usually create a threat as long as individuals within the firm or the network firm do not assume a management responsibility:

- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
- Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions.

609.4 A3 Factors that are relevant in identifying self-interest, familiarity or intimidation threats created by providing recruiting services to an audit client, and evaluating the level of such threats include:

- The nature of the requested assistance.
- The role of the individual to be recruited.
- Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.

609.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not audit team members to perform the service.

Recruiting Services that are Prohibited

R609.5 When providing recruiting services to an audit client, the firm or the network firm shall not act as a negotiator on the client's behalf.

R609.6 A firm or a network firm shall not provide a recruiting service to an audit client if the service relates to:

(a) Searching for or seeking out candidates;

(b) Undertaking reference checks of prospective candidates;

(c) Recommending the person to be appointed; or

(d) Advising on the terms of employment, remuneration or related benefits of a particular candidate,

with respect to the following positions:

(i) A director or officer of the entity; or

(ii) A member of senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

SUBSECTION 610 – CORPORATE FINANCE SERVICES

Introduction

610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a corporate finance service to an audit client.

Requirements and Application Material

Description of Service

610.2 A1 Examples of corporate finance services include:

- Assisting an audit client in developing corporate strategies.
- Identifying possible targets for the audit client to acquire.
- Advising on the potential purchase or disposal price of an asset.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements.

Potential Threats Arising from the Provision of Corporate Finance Services

All Audit Clients

610.3 A1 Providing corporate finance services to an audit client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

610.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing corporate finance services to an audit client, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements.
- The extent to which:
  - The outcome of the corporate finance advice will directly affect amounts recorded in the financial statements.
  - The outcome of the corporate finance service might have a material effect on the financial statements.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R610.8 applies.

Corporate Finance Services that are Prohibited

R610.5 A firm or a network firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments

issued by the audit client or providing advice on investment in such shares, debt or other financial instruments.

R610.6 A firm or a network firm shall not provide advice in relation to corporate finance services to an audit client where:

(a) The effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion; and

(b) The audit team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit Clients that are Not Public Interest Entities

610.7 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing corporate finance services to an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

Audit Clients that are Public Interest Entities

Self-review Threats

R610.8 A firm or a network firm shall not provide corporate finance services to an audit client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14 and R600.16).

Advocacy Threats

610.8 A1 An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance services to an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.

SECTION 800 REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)

Introduction

800.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

800.2 This section sets out certain modifications to Part 4A which are permitted in certain circumstances involving audits of special purpose financial statements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution report in the circumstances set out in paragraph R800.3 is referred to as an "eligible audit engagement."

Requirements and Application Material

General

R800.3 When a firm intends to issue a report on an audit of special purpose financial statements which includes a restriction on use and distribution, the independence requirements set out in Part 4A shall be eligible for the modifications that are permitted by this section, but only if:

(a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and

(b) The intended users of the report understand the purpose and limitations of the report and explicitly agree to the application of the modifications.

800.3 A1 The intended users of the report might obtain an understanding of the purpose and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.

R800.4 Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.

800.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

R800.5 When the firm performs an eligible audit engagement, any modifications to Part 4A shall be limited to those set out in paragraphs R800.7 to R800.14. The firm shall not apply these modifications when an audit of financial statements is required by law or regulation.

R800.6 If the firm also issues an audit report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4A to that audit engagement.

Public Interest Entities

R800.7 When the firm performs an eligible audit engagement, the firm does not need to apply the independence requirements set out in Part 4A that apply only to public interest entity audit engagements.

Related Entities

R800.8 When the firm performs an eligible audit engagement, references to "audit client" in Part 4A do not need to include its related entities. However, when the audit team knows or has reason to believe that a relationship or circumstance involving a related entity of the client is relevant to the evaluation of the firm's independence of the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

Networks and Network Firms

R800.9 When the firm performs an eligible audit engagement, the specific requirements regarding network firms set out in Part 4A do not need to be applied. However, when the firm knows or has reason to believe that threats to independence are created by any interests and relationships of a network firm, the firm shall evaluate and address any such threat.

Financial Interests, Loans and Guarantees, Close Business Relationships, and Family and Personal Relationships

R800.10 When the firm performs an eligible audit engagement:

(a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and, where applicable, close family members;

(b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the audit client and the following audit team members:

(i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and

(ii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and

(c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

800.10 A1 Others within a firm who can directly influence the outcome of the audit engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the audit engagement partner in connection with the performance of the audit engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent).

R800.11 When the firm performs an eligible audit engagement, the firm shall evaluate and address any threats that the engagement team has reason to believe are created by financial

interests in the audit client held by individuals, as set out in paragraphs R510.4(c) and (d), R510.5, R510.7 and 510.10 A5 and A9.

R800.12 When the firm performs an eligible audit engagement, the firm, in applying the provisions set out in paragraphs R510.4(a), R510.6 and R510.7 to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit client.

Employment with an Audit Client

R800.13 When the firm performs an eligible audit engagement, the firm shall evaluate and address any threats created by any employment relationships as set out in paragraphs 524.3 A1 to 524.5 A3.

Providing Non-Assurance Services

R800.14 If the firm performs an eligible audit engagement and provides a non-assurance service to the audit client, the firm shall comply with Sections 410 to 430 and Section 600, including its subsections, subject to paragraphs R800.7 to R800.9.

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS ADDRESSED IN PART 5

CONTENTS

Page

SECTION 900 APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS WITHIN THE SCOPE OF THE INTERNATIONAL INDEPENDENCE STANDARDS (NEW ZEALAND) IN PART 5 225

SECTION 905 FEES 233

SECTION 906 GIFTS AND HOSPITALITY 237

SECTION 907 ACTUAL OR THREATENED LITIGATION 238

SECTION 910 FINANCIAL INTERESTS 239

SECTION 911 LOANS AND GUARANTEES 242

SECTION 920 BUSINESS RELATIONSHIPS 244

SECTION 921 FAMILY AND PERSONAL RELATIONSHIPS 246

SECTION 922 RECENT SERVICE WITH AN ASSURANCE CLIENT 249

SECTION 923 SERVING AS A DIRECTOR OR OFFICER OF AN ASSURANCE CLIENT 250

SECTION 924 EMPLOYMENT WITH AN ASSURANCE CLIENT 251

SECTION 940 LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT 253

SECTION 950 PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENT CLIENTS 255

SECTION 990 REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS) 259

SECTION 900 APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS WITHIN THE SCOPE OF THE INTERNATIONAL INDEPENDENCE STANDARDS (NEW ZEALAND) IN PART 5

Introduction

General

900.1 This Part applies to assurance engagements other than audit engagements and review engagements, and sustainability assurance engagements within the scope of the International Independence Standards (New Zealand) in Part 5. Examples of such engagements include:

- Assurance on an entity's key performance indicators.
- Assurance on an entity's compliance with law or regulation.
- Assurance on performance criteria, such as value for money, achieved by a public sector body.
- Assurance on the effectiveness of an entity's system of internal control.
- Assurance on an entity's non-financial information, other than assurance on sustainability information within the scope of the *International Independence Standards (New Zealand)* in Part 5.
- An audit of specific elements, accounts or items of a financial statement.
- A sustainability assurance engagement that is not within the scope of the *International Independence Standards (New Zealand)* in Part 5, for example:
  - A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported in accordance with a framework designed to meet the information needs of specified users.
  - A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported in accordance with entity-developed criteria.
  - A sustainability assurance engagement for which the sustainability assurance report is a restricted use and distribution report.

900.2 In this Part, the term "assurance practitioner" refers to individual assurance practitioners and their firms.

900.3 Professional and Ethical Standard 3 requires a firm to design, implement and operate a system of quality management for assurance engagements performed by the firm. As part of this system of quality management, Professional and Ethical Standard 3 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Under Professional and Ethical Standard 3, relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject. In addition, International Standards on Assurance Engagements (New Zealand), Standards on Assurance Engagements, International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE), and International

Standards on Auditing (New Zealand) establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. A firm assigns operational responsibility for compliance with independence requirements to an individual(s) in accordance with Professional and Ethical Standard 3. Additionally, an individual assurance practitioner remains responsible for compliance with any provisions that apply to that assurance practitioner's activities, interests or relationships.

900.4 Independence is linked to the principles of objectivity and integrity. It comprises:

- Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an assurance team member's integrity, objectivity or professional scepticism has been compromised.

In this Part, references to an individual or firm being "independent" mean that the individual or firm has complied with the provisions of this Part.

900.5 When performing assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing assurance engagements other than audit or review engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.

900.6 This Part describes:

(a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;

(b) Potential actions, including safeguards, that might be appropriate to address any such threats; and

(c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce the threats to an acceptable level.

Description of Assurance Engagements

900.7 In an assurance engagement, the firm aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users (other than the responsible party) about the subject matter information. ISAE (NZ) 3000 (Revised) describes the elements and objectives of an assurance engagement conducted under that Standard, and Explanatory Guide (EG) Au1A, *Framework for Assurance Engagements*, provides a general description of assurance engagements. An assurance engagement might either be an attestation engagement or a direct engagement.

900.8 In this Part, the term 'assurance engagement' refers to assurance engagements other than audit engagements or review engagements.

Reports that Include a Restriction on Use and Distribution

900.9 An assurance report might include a restriction on use and distribution. If it does and the conditions set out in Section 990 are met, then the independence requirements in this Part may be modified as provided in Section 990.

Audit and Review Engagements

900.10 Independence standards for audit and review engagements are set out in Part 4A – *Independence for Audit and Review Engagements*. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members.

NZ 900.10.1 Part 4A also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.

Sustainability Assurance Engagements Addressed in Part 5

900.11 Part 5 sets out independence standards for certain sustainability assurance engagements. If a firm performs both a sustainability assurance engagement within the scope of the *International Independence Standards (New Zealand)* in Part 5 and another assurance engagement within the scope of this Part for the same client, the requirements in Part 5 continue to apply to the firm, a network firm and the sustainability assurance team members.

Requirements and Application Material

General

R900.12 A firm performing an assurance engagement shall be independent of the assurance client.

900.12 A1 For the purposes of this Part, the assurance client in an assurance engagement is the responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).

900.12 A2 The roles of the parties involved in an assurance engagement might differ and affect the application of the independence provisions in this Part. In the majority of attestation engagements, the responsible party and the party taking responsibility for the subject matter information are the same. This includes those circumstances where the responsible party involves another party to measure or evaluate the underlying subject matter against the criteria (the measurer or evaluator) where the responsible party takes responsibility for the subject matter information as well as the underlying subject matter. However, the responsible party or the engaging party might appoint another party to prepare the subject matter information on the basis that this party is to take responsibility for the subject matter information. In this circumstance, the responsible party and that party responsible for the subject matter information are both assurance clients for the purposes of this Part.

900.12 A3 In addition to the responsible party and, in an attestation engagement, the party taking responsibility for the subject matter information, there might be other parties in relation to the engagement. For example, there might be a separate engaging party or a party who is a measurer or evaluator other than the party taking responsibility for the subject matter information. In these circumstances, applying the conceptual framework requires the assurance practitioner to identify and evaluate threats to the fundamental principles

created by any interests or relationships with such parties, including whether any conflicts of interest might exist as described in Section 310.

R900.13 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

NZ R900.13.1 Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

Prohibition on Assuming Management Responsibilities

R900.14 A firm shall not assume a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement provided by the firm.

900.14 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

900.14 A2 When a firm assumes a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

900.14 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorising transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

900.14 A4 Examples of IT systems services that result in the assumption of a management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, include where a firm:

- Stores data or manages (directly or indirectly) the hosting of data related to the underlying subject matter or subject matter information. Such services include:

- Acting as the only access to the data or records related to the underlying subject matter or subject matter information.
- Taking custody of or storing the data or records related to the underlying subject matter or subject matter information such that the assurance client's data or records are otherwise incomplete.
- Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the assurance client's data or records related to the underlying subject matter or subject matter information.

- Operates, maintains, or monitors an assurance client's IT systems, network or website related to the underlying subject matter or subject matter information.

900.14 A5 The collection, receipt, transmission and retention of data provided by an assurance client in the course of an assurance engagement or to enable the provision of a permissible non-assurance service to the assurance client does not result in an assumption of management responsibility.

900.14 A6 Subject to compliance with paragraph R900.14, providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility.

R900.15 When performing a professional activity for an assurance client that is related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:

(i) The objectives, nature and results of the activities; and

(ii) The respective client and firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

(b) Provides oversight of the activities and evaluates the adequacy of the results of the activity performed for the client's purpose; and

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

900.15 A1 When technology is used in performing a professional activity for an assurance client, the requirements in paragraphs R900.14 and R900.15 apply regardless of the nature or extent of such use of the technology.

Multiple Responsible Parties and Parties Taking Responsibility for the Subject Matter Information

900.15 A2 In some assurance engagements, whether an attestation engagement or direct engagement, there might be several responsible parties or, in an attestation engagement, several parties taking responsibility for the subject matter information. In determining whether it is necessary to apply the provisions in this Part to each individual responsible party or each individual party taking responsibility for the subject matter information in such engagements, the firm may take into account certain matters. These matters include

whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party or party taking responsibility for the subject matter information would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

- The materiality of the underlying subject matter or subject matter information for which the particular party is responsible in the context of the overall assurance engagement.
- The degree of public interest associated with the assurance engagement.

If the firm determines that the threat created by any such interest or relationship with a particular party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of that section to that party.

Network Firms

R900.16 When a firm knows or has reason to believe that interests and relationships of a network firm create a threat to the firm's independence, the firm shall evaluate and address any such threat.

900.16 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

Related Entities

R900.17 When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 900.18 to 900.29 are intentionally left blank]

Period During which Independence is Required

R900.30 Independence, as required by this Part, shall be maintained during both:

(a) The engagement period; and

(b) The period covered by the subject matter information.

900.30 A1 The engagement period starts when the engagement team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

R900.31 If an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:

(a) Financial or business relationships with the assurance client during or after the period covered by the subject matter information but before accepting the assurance engagement; or

(b) Previous services provided to the assurance client.

R900.32 Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the engagement team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall

evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.

900.32 A1 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer review the assurance or non-assurance work as appropriate.

R900.33 If a non-assurance service that would not be permitted during the engagement period has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:

(a) The firm is satisfied that:

(i) The non-assurance service will be completed within a short period of time; or

(ii) The client has arrangements in place to transition the service to another provider within a short period of time;

(b) The firm applies safeguards when necessary during the service period; and

(c) The firm discusses the matter with the party engaging the firm or those charged with governance of the assurance client.

Communication with Those Charged With Governance

900.34 A1 Paragraphs R300.9 to 300.9 A2 set out requirements and application material that is relevant to communications with a party engaging the firm or those charged with governance of the assurance client.

900.34 A2 Communication with a party engaging the firm or those charged with governance of the assurance client might be appropriate when significant judgements are made, and conclusions reached, to address threats to independence in relation to an assurance engagement because the subject matter information of that engagement is the outcome of a previously performed non-assurance service.

[Paragraphs 900.34 to 900.39 are intentionally left blank]

General Documentation of Independence for Assurance Engagements

R900.40 A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

(a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and

(b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

900.40 A1 Documentation provides evidence of the firm's judgements in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

[Paragraphs 900.41 to 900.49 are intentionally left blank]

Breach of an Independence Provision for Assurance Engagements

When a Firm Identifies a Breach

R900.50 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

(a) End, suspend or eliminate the interest or relationship that created the breach;

(b) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report; and

(c) Determine whether action can be taken that satisfactorily addresses the consequences of the breach.

In making this determination, the firm shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an assurance report.

R900.51 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate. The firm shall also take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

R900.52 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.

R900.53 If the party that engaged the firm does not, or those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R900.50(c) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

Documentation

R900.54 In complying with the requirements in paragraphs R900.50 to R900.53, the firm shall document:

(a) The breach;

(b) The actions taken;

(c) The key decisions made; and

(d) All the matters discussed with the party that engaged the firm or those charged with governance.

R900.55 If the firm continues with the assurance engagement, it shall document:

(a) The conclusion that, in the firm's professional judgement, objectivity has not been compromised; and

(b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an assurance report.

SECTION 905 FEES

Introduction

905.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

905.2 Fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to assurance clients.

Requirements and Application Material

Fees Paid by an Assurance Client

905.3 A1 When fees are negotiated with and paid by an assurance client, this creates a self-interest threat and might create an intimidation threat to independence.

905.3 A2 The application of the conceptual framework requires that before a firm accepts an assurance engagement for an assurance client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period.

905.3 A3 Factors that are relevant in evaluating the level of threats created when fees are paid by the assurance client include:

- The level of the fees for the assurance engagement and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The significance of the client to the firm or partner.
- The nature of the client.
- The nature of the assurance engagement.
- The involvement of those charged with governance in agreeing fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.

905.3 A4 The conditions, policies and procedures described in paragraphs 120.15 A3 (particularly the existence of a quality management system designed and implemented by a firm in accordance with quality management standards issued by the New Zealand Auditing and Assurance Standards Board) might also impact the evaluation of whether the threats to independence are at an acceptable level.

905.3 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Fees for Assurance Engagements

905.4 A1 Determining the fees to be charged to an assurance client, whether for assurance or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

905.4 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the fee for an assurance engagement when paid by the assurance client include:

- The firm's commercial rationale for the fee for the assurance engagement.
- Whether undue pressure has been, or is being, applied by the client to reduce the fee for the assurance engagement.

905.4 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the assurance engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

Contingent Fees

905.5 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R905.6 A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

R905.7 A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to a matter that is material to the subject matter information of the assurance engagement.

905.7 A1 Paragraphs R905.6 and R905.7 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, it might still impact the level of the self-interest threat.

905.7 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.7 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees—Overdue Fees

905.8 A1 The level of the self-interest threat might be impacted if fees payable by the assurance client for the assurance engagement or other services are overdue during the period of the assurance engagement.

905.8 A2 It is generally expected that the firm will obtain payment of such fees before the assurance report is issued.

905.8 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the firm.
- The length of time the fees have been overdue.
- The firm's assessment of the ability and willingness of the client or other relevant party to pay the overdue fee.

905.8 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

R905.9 When a significant part of the fees due from an assurance client remains unpaid for a long time, the firm shall determine:

(a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 911 are applicable; and

(b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement.

Total Fees—Fee Dependency

905.10 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from that client impact the level of the self-interest threat and create an intimidation threat.

905.10 A2 A self-interest and intimidation threat is created in the circumstances described in paragraph 905.10 A1 even if the assurance client is not responsible for negotiating or paying the fees for the assurance engagement.

905.10 A3 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

905.10 A4 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:

- The operating structure of the firm.
- Where the firm is expected to diversify such that any dependence on the assurance client is reduced.

905.10 A5 Examples of actions that might be safeguards to address such threats include:

- Reducing the extent of services other than assurance engagements provided to the client.
- Increasing the client base of the firm to reduce dependence on the assurance client.

905.10 A6 A self-interest or intimidation threat is created when the fees generated by a firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.

905.10 A7 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the assurance client to the partner.
- The extent to which the compensation of the partner is dependent upon the fees generated from the client.

905.10 A8 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:

- Having an appropriate reviewer who was not an assurance team member review the work.
- Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the assurance client.
- Increasing the client base of the partner to reduce dependence on the client.

SECTION 906 GIFTS AND HOSPITALITY

Introduction

906.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

906.2 Accepting gifts and hospitality from an assurance client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirement and Application Material

R906.3 A firm or an assurance team member shall not accept gifts and hospitality from an assurance client, unless the value is trivial and inconsequential.

906.3 A1 Where a firm or assurance team member is offering or accepting an inducement to or from an assurance client, the requirements and application material set out in Section 340 apply and non-compliance with these requirements might create threats to independence.

906.3 A2 The requirements set out in Section 340 relating to offering or accepting inducements do not allow a firm or assurance team member to accept gifts and hospitality where the intent is to improperly influence behaviour even if the value is trivial and inconsequential.

SECTION 907 ACTUAL OR THREATENED LITIGATION

Introduction

907.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

907.2 When litigation with an assurance client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

General

907.3 A1 The relationship between client management and assurance team members must be characterised by complete candour and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between an assurance client and the firm or an assurance team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.

907.3 A2 Factors that are relevant in evaluating the level of such threats include:

- The materiality of the litigation.
- Whether the litigation relates to a prior assurance engagement.

907.3 A3 If the litigation involves an assurance team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the assurance team.

907.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is having an appropriate reviewer review the work performed.

SECTION 910 FINANCIAL INTERESTS

Introduction

910.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

910.2 Holding a financial interest in an assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

910.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.

910.3 A2 This section contains references to the "materiality" of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

910.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an assurance client include:

- The role of the individual holding the financial interest.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest.

Financial Interests Held by the Firm, Assurance Team Members and Immediate Family

R910.4 A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:

(a) The firm; or

(b) An assurance team member or any of that individual's immediate family.

Financial Interests in an Entity Controlling an Assurance Client

R910.5 When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Financial Interests Held as Trustee

R910.6 Paragraph R910.4 shall also apply to a financial interest in an assurance client held in a trust for which the firm or individual acts as trustee unless:

(a) None of the following is a beneficiary of the trust: the trustee, the assurance team member or any of that individual's immediate family, or the firm;

(b) The interest in the assurance client held by the trust is not material to the trust;

(c) The trust is not able to exercise significant influence over the assurance client; and

(d) None of the following can significantly influence any investment decision involving a financial interest in the assurance client: the trustee, the assurance team member or any of that individual's immediate family, or the firm.

Financial Interests Received Unintentionally

R910.7 If a firm, an assurance team member, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an assurance client by way of an inheritance, gift, as a result of a merger, or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

(a) If the interest is received by the firm, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or

(b) If the interest is received by an assurance team member, or by any of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.

Financial Interests – Other Circumstances

Close Family

910.8 A1 A self-interest threat might be created if an assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the assurance client.

910.8 A2 Factors that are relevant in evaluating the level of such a threat include:

- The nature of the relationship between the assurance team member and the close family member.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest to the close family member.

910.8 A3 Examples of actions that might eliminate such a self-interest threat include:

- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
- Removing the individual from the assurance team.

910.8 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the assurance team member.

Other Individuals

910.8 A5 A self-interest threat might be created if an assurance team member knows that a financial interest is held in the assurance client by individuals such as:

- Partners and professional employees of the firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R910.4, or their immediate family members.
- Individuals with a close personal relationship with an assurance team member.

910.8 A6 An example of an action that might eliminate such a self-interest threat is removing the assurance team member with the personal relationship from the assurance team.

910.8 A7 Examples of actions that might be safeguards to address such a self-interest threat include:

- Excluding the assurance team member from any significant decision-making concerning the assurance engagement.
- Having an appropriate reviewer review the work of the assurance team member.

SECTION 911 LOANS AND GUARANTEES

Introduction

911.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

911.2 A loan or a guarantee of a loan with an assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

911.3 A1 This section contains references to the "materiality" of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Loans and Guarantees with an Assurance Client

R911.4 A firm, an assurance team member, or any of that individual's immediate family shall not make or guarantee a loan to an assurance client unless the loan or guarantee is immaterial to both:

(a) The firm or the individual making the loan or guarantee, as applicable; and

(b) The client.

Loans and Guarantees with an Assurance Client that is a Bank or Similar Institution

R911.5 A firm, an assurance team member, or any of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

911.5 A1 Examples of loans include mortgages, bank overdrafts, car loans and credit card balances.

911.5 A2 Even if a firm receives a loan from an assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the assurance client or firm receiving the loan.

911.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not an assurance team member, from a network firm that is not a beneficiary of the loan.

Deposit or Brokerage Accounts

R911.6 A firm, an assurance team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an assurance client that is a bank, broker, or similar institution, unless the deposit or account is held under normal commercial terms.

Loans and Guarantees with an Assurance Client that is not a Bank or Similar Institution

R911.7 A firm or an assurance team member, or any of that individual's immediate family, shall not accept a loan from, or have a borrowing guaranteed by, an assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to both:

(a) The firm, or the individual receiving the loan or guarantee, as applicable; and

(b) The client.

SECTION 920 BUSINESS RELATIONSHIPS

Introduction

920.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

920.2 A close business relationship with an assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

920.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

920.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the assurance client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties.
- Arrangements under which the firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm's products or services.
- Arrangements under which a firm develops jointly with the client, products or solutions which one or both parties sell or license to third parties.

920.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the firm licenses products or solutions to or from the assurance client.

Firm, Assurance Team Member or Immediate Family Business Relationships

R920.4 A firm or an assurance team member shall not have a close business relationship with an assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm or the assurance team member, as applicable.

920.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the assurance client or its management and the immediate family of an assurance team member.

Buying Goods or Services

920.5 A1 The purchase of goods and services, including the licensing of technology from an assurance client by a firm, or an assurance team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in

the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

920.5 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the assurance team.

Providing, Selling, Reselling or Licencing Technology

920.6 A1 Where a firm provides, sells, resells or licenses technology:

(a) To an assurance client; or

(b) To an entity that provides services using such technology to assurance clients of the firm,

depending on the facts and circumstances, the requirements and application material in Section 950 apply.

SECTION 921 FAMILY AND PERSONAL RELATIONSHIPS

Introduction

921.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

921.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

921.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between an assurance team member and a director or officer or, depending on their role, certain employees of the assurance client.

921.3 A2 Factors that are relevant in evaluating the level of such threats include:

- The individual's responsibilities on the assurance team.
- The role of the family member or other individual within the assurance client, and the closeness of the relationship.

Immediate Family of an Assurance Team Member

921.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of an assurance team member is an employee in a position to exert significant influence over the underlying subject matter of the assurance engagement.

921.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position held by the immediate family member.
- The role of the assurance team member.

921.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.

921.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the immediate family member.

R921.5 An individual shall not participate as an assurance team member when any of that individual's immediate family:

(a) Is a director or officer of the assurance client;

(b) Is an employee in a position to exert significant influence over the subject matter information of the assurance engagement; or

(c) Was in such a position during any period covered by the engagement or the subject matter information.

Close Family of an Assurance Team Member

921.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of an assurance team member is:

(a) A director or officer of the assurance client; or

(b) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.6 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the assurance team member and the close family member.
- The position held by the close family member.
- The role of the assurance team member.

921.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.

921.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the close family member.

Other Close Relationships of an Assurance Team Member

R921.7 An assurance team member shall consult in accordance with firm policies and procedures if the assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:

(a) A director or officer of the assurance client; or

(b) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such relationships include:

- The nature of the relationship between the individual and the assurance team member.
- The position the individual holds with the client.
- The role of the assurance team member.

921.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the assurance team.

921.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the assurance team so that the assurance team member does not deal with matters that are within the responsibility of the individual with whom the assurance team member has a close relationship.

Relationships of Partners and Employees of the Firm

921.8 A1 A self-interest, familiarity or intimidation threat might be created by a personal or family relationship between:

(a) A partner or employee of the firm who is not an assurance team member; and

(b) Any of the following individuals at the assurance client:

(i) A director or officer;

(ii) An employee in a position to exert significant influence over the underlying subject matter or an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

921.8 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the partner or employee of the firm with the assurance team.
- The position of the partner or employee within the firm.
- The role of the individual within the client.

921.8 A3 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the assurance engagement.
- Having an appropriate reviewer review the relevant assurance work performed.

SECTION 922 RECENT SERVICE WITH AN ASSURANCE CLIENT

Introduction

922.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

922.2 If an assurance team member has recently served as a director or officer or employee of the assurance client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service During the Period Covered by the Assurance Report

R922.3 The assurance team shall not include an individual who, during the period covered by the assurance report:

(a) Had served as a director or officer of the assurance client; or

(b) Was an employee in a position to exert significant influence over underlying subject matter or, in an attestation engagement, employee in a position to exert significant influence over the subject matter information of the assurance engagement.

Service Prior to the Period Covered by the Assurance Report

922.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the assurance report, an assurance team member:

(a) Had served as a director or officer of the assurance client; or

(b) Was an employee in a position to exert significant influence over underlying subject matter or, in an attestation engagement, employee in a position to exert significant influence over the subject matter information of the assurance engagement.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current assurance engagement.

922.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the assurance team member.

922.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the assurance team member.

SECTION 923 SERVING AS A DIRECTOR OR OFFICER OF AN ASSURANCE CLIENT

Introduction

923.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

923.2 Serving as a director or officer of an assurance client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service as Director or Officer

R923.3 A partner or employee of the firm shall not serve as a director or officer of an assurance client of the firm.

Service as Company Secretary

R923.4 A partner or employee of the firm shall not serve as Company Secretary for an assurance client of the firm unless:

(a) This practice is specifically permitted under local law, professional rules or practice;

(b) Management makes all decisions; and

(c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

923.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm serves as Company Secretary for an assurance client. (More information on providing non-assurance services to an assurance client is set out in Section 950, *Provision of Non-assurance Services to an Assurance Client.)*

SECTION 924 EMPLOYMENT WITH AN ASSURANCE CLIENT

Introduction

924.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

924.2 Employment relationships with an assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

924.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an assurance team member or partner of the firm:

- A director or officer of the assurance client.
- An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee who is in a position to exert significant influence over the subject matter information of the assurance engagement.

Former Partner or Assurance Team Member Restrictions

R924.4 If a former partner has joined an assurance client of the firm or a former assurance team member has joined the assurance client as:

(a) A director or officer; or

(b) An employee in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, an employee in a position to exert significant influence over the subject matter information of the assurance engagement,

the individual shall not continue to participate in the firm's business or professional activities.

924.4 A1 Even if one of the individuals described in paragraph R924.4 has joined the assurance client in such a position and does not continue to participate in the firm's business or professional activities, a familiarity or intimidation threat might still be created.

924.4 A2 A familiarity or intimidation threat might also be created if a former partner of the firm has joined an entity in one of the positions described in paragraph 924.3 A1 and the entity subsequently becomes an assurance client of the firm.

924.4 A3 Factors that are relevant in evaluating the level of such threats include:

- The position the individual has taken at the client.
- Any involvement the individual will have with the assurance team.
- The length of time since the individual was an assurance team member or partner of the firm.
- The former position of the individual within the assurance team or firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

924.4 A4 Examples of actions that might be safeguards to address such a familiarity or intimidation threat include:

- Making arrangements such that the individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements.
- Making arrangements such that any amount owed to the individual is not material to the firm.
- Modifying the plan for the assurance engagement.
- Assigning to the assurance team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former assurance team member.

Assurance Team Members Entering Employment Negotiations with a Client

R924.5 A firm shall have policies and procedures that require assurance team members to notify the firm when entering employment negotiations with an assurance client.

924.5 A1 A self-interest threat is created when an assurance team member participates in the assurance engagement while knowing that the assurance team member will, or might, join the client sometime in the future.

924.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the assurance engagement.

924.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgements made by that assurance team member while on the team.

SECTION 940 LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

Introduction

940.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

940.2 When an individual is involved in an assurance engagement of a recurring nature over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

940.3 A1 A familiarity threat might be created as a result of an individual's long association with:

(a) The assurance client;

(b) The assurance client's senior management; or

(c) The underlying subject matter or, in an attestation engagement, subject matter information of the assurance engagement.

940.3 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding assurance client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgement inappropriately.

940.3 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:

- The nature of the assurance engagement.
- How long the individual has been an assurance team member, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior firm.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement, for example, by making key decisions or directing the work of other engagement team members.
- The closeness of the individual's personal relationship with the assurance client or, if relevant, senior management.
- The nature, frequency and extent of interaction between the individual and the assurance client.
- Whether the nature or complexity of the underlying subject matter or subject matter information has changed.
- Whether there have been any recent changes in the individual or individuals at the assurance client who are responsible for the underlying subject matter or, in an attestation engagement, the subject matter information or, if relevant, senior management.

940.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an assurance team member and an individual at the assurance client who is in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, the subject matter information, would be reduced by the departure of that individual from the client.

940.3 A5 An example of an action that might eliminate the familiarity and self-interest threats in relation to a specific engagement would be rotating the individual off the assurance team.

940.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an assurance team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

R940.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

(a) Be a member of the engagement team for the assurance engagement;

(b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or

(c) Exert direct influence on the outcome of the assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

SECTION 950 PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENT CLIENTS

Introduction

950.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence.

950.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to assurance clients.

950.4 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.

950.5 The requirements and application material in this section apply where a firm:

(a) Uses technology to provide a non-assurance service to an assurance client; or

(b) Provides, sells, resells or licenses technology that provides a non-assurance service:

(i) To an assurance client; or

(ii) To an entity that provides services using such technology to assurance clients of the firm.

Requirements and Application Material

General

Risk of Assuming Management Responsibilities When Providing a Non-Assurance Service

950.5 A1 When a firm provides a non-assurance service to an assurance client, there is a risk that a firm will assume a management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement unless the firm is satisfied that the requirements in paragraphs R900.14 and R900.15 have been complied with.

Accepting an Engagement to Provide a Non-Assurance Service

R950.6 Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

Identifying and Evaluating Threats

950.7 A1 A description of the categories of threats that might arise when a firm provides a non-assurance service to an assurance client is set out in paragraph 120.6 A3.

950.7 A2 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an assurance client include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- Whether the outcome of the service will affect the underlying subject matter and, in an attestation engagement, matters reflected in the subject matter information of the assurance engagement, and, if so:
    - The extent to which the outcome of the service will have a material effect on the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement.
    - The extent to which the assurance client determines significant matters of judgement (Ref: Para. R900.14 to R900.15).
- The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
- The fee relating to the provision of the non-assurance service.

Materiality in Relation to an Assurance Client's Information

950.8 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an assurance client. The concept of materiality in relation to an assurance client's subject matter information is addressed in *International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

Multiple Non-assurance Services Provided to the Same Assurance Client

950.9 A1 A firm might provide multiple non-assurance services to an assurance client. In these circumstances the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

Self-Review Threats

950.10 A1 A self-review threat might be created if, in an attestation engagement, the firm is involved in the preparation of subject matter information which subsequently becomes the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

(a) Developing and preparing prospective information and subsequently issuing an assurance report on this information.

(b) Performing a valuation that is related to or forms part of the subject matter information of an assurance engagement.

(c) Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems or IT controls and subsequently undertaking an assurance engagement on a statement or report prepared about the IT systems or IT controls.

(d) Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems and subsequently issuing an assurance report on subject matter information, such as elements of non-financial information, that is prepared from information generated by such IT systems.

Assurance clients that are public interest entities

950.11 A1 Expectations about a firm's independence are heightened when an assurance engagement is undertaken by a firm for a public interest entity and the results of that engagement will be:

(a) Made available publicly, including to shareholders and other stakeholders; or

(b) Provided to an entity or organisation established by law or regulation to oversee the operation of a business sector or activity.

Consideration of these expectations forms part of the reasonable and informed third party test applied when determining whether to provide a non-assurance service to an assurance client.

950.11 A2 If a self-review threat exists in relation to an engagement undertaken in the circumstances described in paragraph 950.11 A1 (b), the firm is encouraged to disclose the existence of that self-review threat and the steps taken to address it to the party engaging the firm or those charged with governance of the assurance client and to the entity or organisation established by law or regulation to oversee the operation of a business sector or activity to which the results of the engagement will be provided.

Addressing Threats

950.12 A1 Paragraphs R120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

950.12 A2 Threats to independence created by providing a non-assurance service or multiple services to an assurance client vary depending on facts and circumstances of the assurance engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

950.12 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the assurance work or service performed.

950.12 A4 Safeguards might not be available to reduce the threat created by providing a non-assurance service to an assurance client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm to:

(a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threat;

(b) Decline or end the service that creates the threat that cannot be eliminated or reduced to an acceptable level; or

(c) End the assurance engagement.

SECTION 990 REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)

Introduction

990.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

990.2 This section sets out certain modifications to Part 4B which are permitted in certain circumstances involving assurance engagements where the report includes a restriction on use and distribution. In this section, an engagement to issue a restricted use and distribution assurance report in the circumstances set out in paragraph R990.3 is referred to as an "eligible assurance engagement."

Requirements and Application Material

General

R990.3 When a firm intends to issue a report on an assurance engagement which includes a restriction on use and distribution, the independence requirements set out in Part 4B shall be eligible for the modifications that are permitted by this section, but only if:

(a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and

(b) The intended users of the report understand the purpose, subject matter information and limitations of the report and explicitly agree to the application of the modifications.

990.3 A1 The intended users of the report might obtain an understanding of the purpose, subject matter information, and limitations of the report by participating, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement. In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.

R990.4 Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.

990.4 A1 For example, where the intended users are a class of users such as lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

R990.5 When the firm performs an eligible assurance engagement, any modifications to Part 4B shall be limited to those modifications set out in paragraphs R990.7 and R990.8.

R990.6 If the firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4B to that assurance engagement.

Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships

R990.7 When the firm performs an eligible assurance engagement:

(a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;

(b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members;

(i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and

(ii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and

(c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

990.7 A1 Others within the firm who can directly influence the outcome of the assurance engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

R990.8 When the firm performs an eligible assurance engagement, the firm shall not hold a material direct or a material indirect financial interest in the assurance client.

PART 5 – INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS)

CONTENTS

Page

SECTION 5100 COMPLYING WITH PART 5 ... 263
SECTION 5110 THE FUNDAMENTAL PRINCIPLES ... 267
SUBSECTION 5111 – INTEGRITY ... 268
SUBSECTION 5112 – OBJECTIVITY ... 268
SUBSECTION 5113 – PROFESSIONAL COMPETENCE AND DUE CARE ... 269
SUBSECTION 5114 – CONFIDENTIALITY ... 269
SUBSECTION 5115 – PROFESSIONAL BEHAVIOUR ... 272
SECTION 5120 THE CONCEPTUAL FRAMEWORK ... 273
SECTION 5270 PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES ... 282
SECTION 5300 APPLYING THE CONCEPTUAL FRAMEWORK ... 285
SECTION 5310 CONFLICTS OF INTEREST ... 292
SECTION 5320 PROFESSIONAL APPOINTMENTS ... 296
SECTION 5325 OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS ... 301
SECTION 5330 FEES AND OTHER TYPES OF REMUNERATION ... 303
SECTION 5340 INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY ... 305
SECTION 5350 CUSTODY OF CLIENT ASSETS ... 310
SECTION 5360 RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS ... 311
SECTION 5380 TAX PLANNING SERVICES ... 325
SECTION 5390 USING THE WORK OF AN EXTERNAL EXPERT ... 335
SECTION 5400 APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS ... 349
SECTION 5405 GROUP SUSTAINABILITY ASSURANCE ENGAGEMENTS ... 365
SECTION 5406 ANOTHER PRACTITIONER WHOSE ASSURANCE WORK IS USED IN A SUSTAINABILITY ASSURANCE ENGAGEMENT ... 377
SECTION 5410 FEES ... 379
SECTION 5411 COMPENSATION AND EVALUATION POLICIES ... 391
SECTION 5420 GIFTS AND HOSPITALITY ... 392
SECTION 5430 ACTUAL OR THREATENED LITIGATION ... 393
SECTION 5510 FINANCIAL INTERESTS ... 394
SECTION 5511 LOANS AND GUARANTEES ... 399
SECTION 5520 BUSINESS RELATIONSHIPS ... 401
SECTION 5521 FAMILY AND PERSONAL RELATIONSHIPS ... 403
SECTION 5522 RECENT SERVICE WITH A SUSTAINABILITY ASSURANCE CLIENT ... 406
SECTION 5523 SERVING AS A DIRECTOR OR OFFICER OF A SUSTAINABILITY ASSURANCE CLIENT ... 407
SECTION 5524 EMPLOYMENT WITH A SUSTAINABILITY ASSURANCE CLIENT ... 408

SECTION 5525 TEMPORARY PERSONNEL ASSIGNMENTS 410
SECTION 5540 LONG ASSOCIATION OF PERSONNEL (INCLUDING LEADER ROTATION) WITH A SUSTAINABILITY ASSURANCE CLIENT 412
SECTION 5600 PROVISION OF NON-ASSURANCE SERVICES TO A SUSTAINABILITY ASSURANCE CLIENT 417
SUBSECTION 5601 – SUSTAINABILITY DATA AND INFORMATION SERVICES 426
SUBSECTION 5602 – ADMINISTRATIVE SERVICES 428
SUBSECTION 5603 – VALUATIONS AND ADVISORY SERVICES ON FORWARD-LOOKING INFORMATION 429
SUBSECTION 5604 – TAX SERVICES 431
SUBSECTION 5605 – INTERNAL AUDIT SERVICES 438
SUBSECTION 5606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES 441
SUBSECTION 5607 – LITIGATION SUPPORT SERVICES 443
SUBSECTION 5608 – LEGAL SERVICES 445
SUBSECTION 5609 – RECRUITING SERVICES 448
SUBSECTION 5610 – CORPORATE FINANCE SERVICES 449

SECTION 5100 COMPLYING WITH PART 5

Introduction

General

~~**NZ R5100.0** A sustainability assurance practitioner shall apply the independence requirements in NZ SAE 1 when conducting an assurance engagement for the disclosures within the climate statements relating to greenhouse gas emissions required by the Financial Markets Conduct Act 2013 to be the subject of an assurance engagement.~~

5100.1 It is in the public interest that sustainability assurance practitioners act ethically in order to maintain public trust and confidence in sustainability information that is subject to assurance. High-quality ethics and independence standards alongside other high-quality, globally accepted reporting and assurance standards will help users of sustainability information such as investors, customers, employees, suppliers, regulators and governments to confidently rely on such information in their decision-making.

5100.1a Sustainability assurance practitioners are expected to have relevant skills, knowledge and experience to perform sustainability assurance engagements and have appropriate training to ensure their assurance skills are continually up to date with relevant developments.

5100.2 This Part sets out ethics (including independence) standards for sustainability assurance practitioners and comprises:

(a) Sections 5100 to 5390 which set out ethics standards for all sustainability assurance engagements (including those within the scope of the *International Independence Standards (New Zealand)* in this Part) and other professional services performed for sustainability assurance clients; and

(b) Sections 5400 to 5600 which set out independence standards for sustainability assurance engagements that are within the scope of the *International Independence Standards (New Zealand)* in this Part as set out in paragraphs 5400.3a and 5400.3b.

5100.2a When a sustainability assurance practitioner performs a sustainability assurance engagement that is not within the scope of the *International Independence Standards (New Zealand)* in this Part, Part 4B of the Code sets out the applicable independence standards as set out in paragraph 5400.3e.

5100.2b Sustainability assurance practitioners might perform professional activities and have professional and business relationships that are not covered by this Part, in which case:

(a) Parts 1 to 4B of the Code apply to a practitioner who is a professional accountant.

(b) A practitioner who is not a professional accountant is encouraged to apply Parts 1 to 4B of the Code to guide the practitioner's general conduct. Adhering to the ethics (including independence) standards set out in the Code (or other ethics standards at least as demanding as the Code) in all professional activities contributes to public trust in sustainability information that is subject to assurance. This includes circumstances where the practitioner:

(i) Prepares or presents financial or non-financial, including sustainability, information for a client, the firm or others.

(ii) Faces conflicts of interest when providing professional services to entities that are not sustainability assurance clients.

(iii) Is offered an inducement by a supplier of the firm or by entities that are not sustainability assurance clients.

(iv) Encounters suspected non-compliance with laws and regulations, such as fraud, by management, those charged with governance or other individuals at the firm.

(v) Is asked by an entity that is not an existing sustainability assurance client to provide a second opinion on the preparation of sustainability information or the application of other standards or principles to specific circumstances.

(vi) Provides tax planning services to entities that are not sustainability assurance clients.

5100.3 This Part sets out high quality standards of ethical behaviour expected of sustainability assurance practitioners for:

(a) Adoption by those responsible for setting ethics (including independence) standards for sustainability assurance practitioners in particular sectors or jurisdictions.

(b) Use by firms in developing their ethics and independence policies.

5100.4 This Part establishes five fundamental principles to be complied with by all sustainability assurance practitioners. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and threats to independence. This Part also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that sustainability assurance practitioners might encounter.

Sustainability Information Subject to Assurance

5100.4a Sustainability information might include comprehensive disclosures about many different topics or aspects of topics as required by the sustainability reporting framework or by law or regulation, or that an entity chooses to prepare in accordance with other criteria. Alternatively, the sustainability information prepared by an entity might be limited to certain matters, such as metrics, targets or key performance indicators.

5100.4b The criteria used for the reporting of sustainability information on which the sustainability assurance practitioner expresses an opinion might be framework criteria, entity-developed criteria or a combination of both. Framework criteria might be embodied in law or regulation or issued by authorised or recognised bodies that follow a transparent due process.

5100.4c Depending on the criteria used, the sustainability information might be prepared on a single entity or group basis, and might include information from other entities in the reporting entity's value chain.

5100.4d Sustainability information might be presented in different ways, for example, in a separate sustainability report issued by the entity, as part of the entity's annual report (e.g., a separately identified report within the annual report, or presented as part of the management report or management commentary), or in an integrated report.

Requirements and Application Material

5100.5 A1 The requirements in this Part, designated with the letter "R," impose obligations.

5100.5 A2 Application material, designated with the letter "A," provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of this Part. In particular, the application material is intended to help a sustainability assurance practitioner to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of this Part, including application of the conceptual framework.

R5100.6 A sustainability assurance practitioner shall comply with this Part when providing a professional service described in paragraph 5100.2.

5100.6 A1 Upholding the fundamental principles and compliance with the specific requirements of this Part enable sustainability assurance practitioners to act in the public interest when providing sustainability assurance.

5100.6 A2 Complying with this Part includes giving appropriate regard to the aim and intent of the specific requirements.

5100.6 A3 There might be unusual or exceptional circumstances in which a sustainability assurance practitioner believes that complying with a requirement or requirements in this Part might not be in the public interest when providing sustainability assurance or would lead to a disproportionate outcome. In those circumstances, the practitioner is encouraged to consult with an appropriate body such as a professional or regulatory body, or obtain legal or other expert advice, as appropriate.

5100.6 A4 In acting in the public interest, a sustainability assurance practitioner considers not only the preferences or requirements of an individual sustainability assurance client, but also the interests of other stakeholders when performing professional services for sustainability assurance clients.

5100.6 A5 When providing a professional service described in paragraph 5100.2(a), a sustainability assurance practitioner may be subject to certain professional and ethics standards as part of the practitioner's profession or professional affiliation. Those standards might comprise provisions on topics also addressed in this Part. In that case, this Part and those other professional and ethics standards both apply to the practitioner.

R5100.7 If there are circumstances where laws or regulations preclude a sustainability assurance practitioner from complying with certain provisions in this Part, those laws and regulations prevail, and the practitioner shall comply with all other provisions in this Part.

5100.7 A1 The principle of professional behaviour requires a sustainability assurance practitioner to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in this Part. Practitioners in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

Breaches of Part 5

R5100.8 Paragraphs R5400.80 to R5400.89 and 5405.22 A1 to R5405.29 address a breach of independence requirements in this Part. A sustainability assurance practitioner who identifies a breach of any other provision in this Part shall evaluate the significance of the breach and its impact on the practitioner's ability to comply with the fundamental principles. The practitioner shall also:

(a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and

(b) Determine whether to report the breach to the relevant parties.

5100.8 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

SECTION 5110 THE FUNDAMENTAL PRINCIPLES

General

5110.1 A1 There are five fundamental principles of ethics for sustainability assurance practitioners:

(a) Integrity – to be straightforward and honest in all professional and business relationships.

(b) Objectivity – to exercise professional or business judgement without being compromised by:

(i) Bias;

(ii) Conflict of interest; or

(iii) Undue influence of, or undue reliance on, individuals, organisations, technology or other factors.

(c) Professional Competence and Due Care – to:

(i) Attain and maintain professional knowledge and skill at the level required to ensure that a sustainability assurance client receives competent professional service, based on current technical and professional standards and relevant legislation; and

(ii) Act diligently and in accordance with applicable technical and professional standards.

(d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.

(e) Professional Behaviour – to:

(i) Comply with relevant laws and regulations;

(ii) Behave in a manner consistent with acting in the public interest in all professional activities and business relationships relating to sustainability assurance clients; and

(iii) Avoid any conduct that the sustainability assurance practitioner knows or should know might affect public trust in sustainability information that is subject to assurance.

R5110.2 A sustainability assurance practitioner shall comply with each of the fundamental principles.

5110.2 A1 The fundamental principles of ethics establish the standard of behaviour expected of a sustainability assurance practitioner. The conceptual framework establishes the approach which a practitioner is required to apply in complying with those fundamental principles. Subsections 5111 to 5115 set out requirements and application material in this Part related to each of the fundamental principles.

5110.2 A2 A sustainability assurance practitioner might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the practitioner might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm.
- Those charged with governance.

- A professional body.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the practitioner from the responsibility to exercise professional judgement to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

5110.2 A3 The sustainability assurance practitioner is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

SUBSECTION 5111 – INTEGRITY

R5111.1 A sustainability assurance practitioner shall comply with the principle of integrity, which requires a practitioner to be straightforward and honest in all professional and business relationships.

5111.1 A1 Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organisational consequences.

5111.1 A2 Acting appropriately involves:

(a) Standing one's ground when confronted by dilemmas and difficult situations; or

(b) Challenging others as and when circumstances warrant,

in a manner appropriate to the circumstances.

R5111.2 A sustainability assurance practitioner shall not knowingly be associated with reports, returns, communications or other information where the practitioner believes that the information:

(a) Contains a materially false or misleading statement;

(b) Contains statements or information provided recklessly; or

(c) Omits or obscures required information where such omission or obscurity would be misleading.

5111.2 A1 If a sustainability assurance practitioner provides a modified report in respect of such a report, return, communication or other information, the practitioner is not in breach of paragraph R5111.2.

R5111.3 When a sustainability assurance practitioner becomes aware of having been associated with information described in paragraph R5111.2, the practitioner shall take steps to be disassociated from that information.

SUBSECTION 5112 – OBJECTIVITY

R5112.1 A sustainability assurance practitioner shall comply with the principle of objectivity, which requires a practitioner to exercise professional or business judgement without being compromised by:

(a) Bias;

(b) Conflict of interest; or

(c) Undue influence of, or undue reliance on, individuals, organisations, technology or other factors.

R5112.2 A sustainability assurance practitioner shall not undertake a professional activity for a sustainability assurance client if a circumstance or relationship unduly influences the practitioner's professional judgement regarding that activity.

SUBSECTION 5113 – PROFESSIONAL COMPETENCE AND DUE CARE

R5113.1 A sustainability assurance practitioner shall comply with the principle of professional competence and due care, which requires a practitioner to:

(a) Attain and maintain professional knowledge and skills at the level required to ensure that a sustainability assurance client receives competent professional service, based on current technical and professional standards and relevant legislation; and

(b) Act diligently and in accordance with applicable technical and professional standards.

5113.1 A1 Serving sustainability assurance clients with professional competence involves the exercise of sound judgement in applying professional knowledge and skill when undertaking professional activities.

5113.1 A2 The knowledge and skills necessary for a professional activity vary depending on the nature of the activity being undertaken. For example, in addition to the application of any technical knowledge relevant to the professional activity, interpersonal, communication and organisational skills facilitate the practitioner's interaction with entities and individuals with whom the practitioner interacts.

5113.1 A3 Maintaining professional competence requires a sustainability assurance practitioner to have a continuing awareness and understanding of technical, professional, business and technology-related developments relevant to the professional activities undertaken by the practitioner. Continuing professional development enables a practitioner to develop and maintain the capabilities to perform competently within the professional environment.

5113.1 A4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

R5113.2 In complying with the principle of professional competence and due care, a sustainability assurance practitioner shall take reasonable steps to ensure that those working in a professional capacity under the practitioner's authority have appropriate training and supervision.

R5113.3 Where appropriate, a sustainability assurance practitioner shall make sustainability assurance clients or other users of the practitioner's professional activities, aware of the limitations inherent in the activities and explain the implications of those limitations.

SUBSECTION 5114 – CONFIDENTIALITY

R5114.1 A sustainability assurance practitioner shall comply with the principle of confidentiality, which requires a practitioner to respect the confidentiality of information acquired in the course of professional and business relationships. A practitioner shall:

(a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;

(b) Maintain confidentiality of information within the firm;

(c) Maintain confidentiality of information disclosed by a prospective sustainability assurance client; and

(d) Take reasonable steps to ensure that personnel under the practitioner's control, and individuals from whom advice and assistance are obtained, comply with the practitioner's duty of confidentiality.

5114.1 A1 Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the sustainability assurance practitioner taking appropriate action to protect the confidentiality of such information in the course of its collection, use, transfer, storage or retention, dissemination and lawful destruction.

R5114.2 Subject to paragraph R5114.3, a sustainability assurance practitioner shall not:

(a) Disclose confidential information acquired in the course of professional and business relationships;

(b) Use confidential information acquired in the course of professional and business relationships for the advantage of the practitioner, the firm or a third party;

(c) Use or disclose any confidential information, either acquired or received in the course of a professional or business relationship, after that relationship has ended; and

(d) Use or disclose information in respect of which the duty of confidentiality applies notwithstanding that the information has become publicly available, whether properly or improperly.

R5114.3 As an exception to paragraph R5114.2, a sustainability assurance practitioner may disclose or use confidential information where:

(a) There is a legal or professional duty or right to do so; or

(b) This is authorised by the sustainability assurance client or any person with the authority to permit disclosure or use of the confidential information and this is not prohibited by law or regulation.

5114.3 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the sustainability assurance client to the sustainability assurance practitioner in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where sustainability assurance practitioners might be required or have the duty or right to disclose confidential information:

(a) Disclosure is required by law or regulation, for example:

(i) Production of documents or other provision of evidence in the course of legal proceedings; or

(ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and

(b) There is a professional duty or right to disclose or use, when not prohibited by law or regulation:

(i) To comply with the quality review, practice assessment or equivalent monitoring activity of a professional body;

(ii) To respond to an inquiry or investigation by a professional or regulatory body;

(iii) To protect the professional interests of a practitioner in legal proceedings; or

(iv) To comply with technical and professional standards, including ethics requirements.

NZ5114.3 A1.1 The circumstances in paragraph 5114.3 A1 do not take into account New Zealand legal and regulatory requirements. A sustainability assurance practitioner considering disclosing or using confidential information about a sustainability assurance client without their consent is advised to first obtain legal advice.

5114.3 A2 In deciding whether to disclose or use confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the sustainability assurance client authorises the disclosure or use of information by the sustainability assurance practitioner.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose or use, the information include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed means of communicating the information.
- Whether the parties to whom the information is to be provided or access is to be granted are appropriate recipients.
- Any applicable law or regulation (including those governing privacy) in a jurisdiction where disclosure might take place and, if different, the jurisdiction where the confidential information originates.

5114.3 A3 The circumstances in which a firm seeks authorisation to use or disclose confidential information, include where the information is to be used for training purposes, in the development of products or technology, in research or as source material for industry or other benchmarking data or studies. Such authorisation might be general in its application (for example, in relation to use of the information for internal training purposes or quality enhancement initiatives). When obtaining the authorisation of the individual or entity that provided such information for use in specific circumstances, relevant considerations to be communicated (preferably in writing) might include:

- The nature of the information to be used or disclosed.
- The purpose for which the information is to be used or disclosed (for example, technology development, research or benchmarking data or studies).
- The individual or entity who will undertake the activity for which the information is to be used or disclosed.
- Whether the identity of the individual or entity that provided such information or any individuals or entities to which such information relates will be identifiable from the output of the activity for which the information is to be used or disclosed.

R5114.4 A sustainability assurance practitioner shall continue to comply with the principle of confidentiality even after the end of the relationship between the practitioner and a sustainability assurance client. When acquiring a new sustainability assurance client, the practitioner is entitled to use prior experience but shall not use or disclose any

confidential information acquired or received in the course of a professional or business relationship.

SUBSECTION 5115 – PROFESSIONAL BEHAVIOUR

R5115.1 A sustainability assurance practitioner shall comply with the principle of professional behaviour, which requires a practitioner to:

(a) Comply with relevant laws and regulations;

(b) Behave in a manner consistent with acting in the public interest in all professional activities and business relationships relating to sustainability assurance clients; and

(c) Avoid any conduct that the practitioner knows or should know might affect public trust in sustainability information that is subject to assurance.

A sustainability assurance practitioner shall not knowingly engage in any business, occupation or activity that impairs or might impair public trust in sustainability information that is subject to assurance, and as a result would be incompatible with the fundamental principles.

5115.1 A1 Conduct that might adversely affect public trust in sustainability information that is subject to assurance includes conduct that a reasonable and informed third party would be likely to conclude has such an effect.

R5115.2 When undertaking marketing or promotional activities, a sustainability assurance practitioner shall be honest and truthful and shall not make:

(a) Exaggerated claims for the services offered by, or the qualifications or experience of, the practitioner; or

(b) Disparaging references or unsubstantiated comparisons to the work of others.

5115.2 A1 If a sustainability assurance practitioner is in doubt about whether a form of advertising or marketing is appropriate, the practitioner is encouraged to consult with an appropriate body, for example a relevant professional or regulatory body, or obtain legal or other expert advice, as appropriate.

SECTION 5120 THE CONCEPTUAL FRAMEWORK

Introduction

5120.1 The circumstances in which sustainability assurance practitioners operate might create threats to compliance with the fundamental principles. Section 5120 sets out requirements and application material, including a conceptual framework, to assist practitioners in complying with the fundamental principles and acting in the public interest when performing sustainability assurance engagements. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter practitioners from concluding that a situation is permitted solely because that situation is not specifically prohibited by this Part.

5120.2 The conceptual framework specifies an approach for a sustainability assurance practitioner to:

(a) Identify threats to compliance with the fundamental principles;

(b) Evaluate the threats identified; and

(c) Address the threats by eliminating or reducing them to an acceptable level.

Requirements and Application Material

General

R5120.3 The sustainability assurance practitioner shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 5110.

[Paragraphs 5120.3 A1 and R5120.4 are intentionally left blank]

R5120.5 When applying the conceptual framework, the sustainability assurance practitioner shall:

(a) Have an inquiring mind;

(b) Exercise professional judgement; and

(c) Use the reasonable and informed third party test described in paragraph 5120.5 A9.

Having an Inquiring Mind

5120.5 A1 An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:

(a) Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and

(b) Being open and alert to a need for further investigation or other action.

5120.5 A2 When considering the source, relevance and sufficiency of information obtained, the sustainability assurance practitioner might consider, among other matters, whether:

- New information has emerged or there have been changes in facts and circumstances.
- The information or its source might be influenced by bias or self-interest.

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the practitioner.
- There is an inconsistency between the known facts and circumstances and the practitioner's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

5120.5 A3 Paragraph R5120.5 requires all sustainability assurance practitioners to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all practitioners regardless of the professional activity undertaken. Under sustainability assurance standards, including those issued by the New Zealand Auditing and Assurance Standards Board, practitioners are also required to exercise professional scepticism, which includes a critical assessment of evidence.

Exercising Professional Judgement

5120.5 A4 Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved. For example, application of knowledge of certain location-specific environmental, social, economic, cultural or other sustainability-related issues might be relevant when performing sustainability assurance engagements.

5120.5 A5 Professional judgement is required when the sustainability assurance practitioner applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the practitioner might consider matters such as whether:

- The practitioner's expertise is sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise.
- The practitioner's own preconception or bias might be affecting the practitioner's exercise of professional judgement.

5120.5 A6 The circumstances in which sustainability assurance practitioners carry out professional activities and the factors involved vary considerably in their range and complexity. The professional judgement exercised by practitioners might need to take into account the complexity arising from the compounding effect of the interaction between, and changes in, elements of the facts and circumstances that are uncertain and variables and assumptions that are interconnected or interdependent.

5120.5 A7 Managing complexity involves:

- Making the firm and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances. (Ref: Para. R5113.3)
- Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any judgements the sustainability assurance practitioner has made. (Ref: Para. R5120.5 to 5120.5 A3, and R5120.9 to 5120.9 A2)

5120.5 A8 Managing complexity might also involve:

- Analysing and investigating as relevant, any uncertain elements, the variables and assumptions and how they are connected or interdependent.
- Using technology to analyse relevant data to inform the sustainability assurance practitioner's judgement.
- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.

Reasonable and Informed Third Party

5120.5 A9 The reasonable and informed third party test is a consideration by the sustainability assurance practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the practitioner knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be a sustainability assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the practitioner's conclusions in an impartial manner.

Identifying Threats

R5120.6 The sustainability assurance practitioner shall identify threats to compliance with the fundamental principles.

5120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the sustainability assurance practitioner's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the practitioner's profession, legislation, regulation, or the firm that can enhance the practitioner acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 5120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

5120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

5120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

(a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a sustainability assurance practitioner's judgement or behaviour;

(b) Self-review threat – the threat that a sustainability assurance practitioner will not appropriately evaluate the results of a previous judgement made, or an activity performed by the practitioner or by another individual within the practitioner's firm, on which the practitioner will rely when forming a judgement as part of performing a current activity;

(c) Advocacy threat – the threat that a sustainability assurance practitioner will promote a sustainability assurance client's position to the point that the practitioner's objectivity is compromised;

(d) Familiarity threat – the threat that due to a long or close relationship with a sustainability assurance client, a sustainability assurance practitioner will be too sympathetic to their interests or too accepting of their work; and

(e) Intimidation threat – the threat that a sustainability assurance practitioner will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the practitioner.

5120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Evaluating Threats

R5120.7 When the sustainability assurance practitioner identifies a threat to compliance with the fundamental principles, the practitioner shall evaluate whether such a threat is at an acceptable level.

Acceptable Level

5120.7 A1 An acceptable level is a level at which a sustainability assurance practitioner using the reasonable and informed third party test would likely conclude that the practitioner complies with the fundamental principles.

Factors Relevant in Evaluating the Level of Threats

5120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the sustainability assurance practitioner's evaluation of threats, as is the combined effect of multiple threats, if applicable.

5120.8 A2 The existence of conditions, policies and procedures described in paragraph 5120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements.
- Effective complaint systems which enable the sustainability assurance practitioner and the general public to draw attention to unethical behaviour.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Consideration of New Information or Changes in Facts and Circumstances

R5120.9 If the sustainability assurance practitioner becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the practitioner shall re-evaluate and address that threat accordingly.

5120.9 A1 Remaining alert throughout the professional activity assists the sustainability assurance practitioner in determining whether new information has emerged or changes in facts and circumstances have occurred that:

(a) Impact the level of a threat; or

(b) Affect the practitioner's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

5120.9 A2 If new information results in the identification of a new threat, the sustainability assurance practitioner is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R5120.7 and R5120.10).

Addressing Threats

R5120.10 If the sustainability assurance practitioner determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the practitioner shall address the threats by eliminating them or reducing them to an acceptable level. The practitioner shall do so by:

(a) Eliminating the circumstances, including interests or relationships, that are creating the threats;

(b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or

(c) Declining or ending the specific professional activity.

Actions to Eliminate Threats

5120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

Safeguards

5120.10 A2 Safeguards are actions, individually or in combination, that the sustainability assurance practitioner takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Consideration of Significant Judgements Made and Overall Conclusions Reached

R5120.11 The sustainability assurance practitioner shall form an overall conclusion about whether the actions that the practitioner takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the practitioner shall:

(a) Review any significant judgements made or conclusions reached; and

(b) Use the reasonable and informed third party test.

Other Considerations when Applying the Conceptual Framework

Bias

5120.12 A1 Conscious or unconscious bias affects the exercise of professional judgement when identifying, evaluating and addressing threats to compliance with the fundamental principles.

5120.12 A2 Examples of potential bias to be aware of when exercising professional judgement include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.

- Automation bias, which is a tendency to favour output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgements or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

5120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to obtain additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

Firm Culture

5120.13 A1 The effective application of the conceptual framework by a sustainability assurance practitioner is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in this Part is promoted through the internal culture of the firm.

5120.13 A2 The promotion of an ethical culture within a firm is most effective when:

(a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the firm;

(b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;

(c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behaviour, including whistle-blowers; and

(d) The firm adheres to ethical values in its dealings with third parties.

5120.13 A3 Sustainability assurance practitioners are expected to:

(a) Encourage and promote an ethics-based culture in their firm, taking into account their position and seniority; and

(b) Exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the practitioners or the firm has a professional or business relationship.

Considerations for Sustainability Assurance Engagements

Additional Consideration for Firm Culture

5120.14 A1 Quality management standards might address firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for sustainability assurance. For example, Professional and Ethical Standard 3 requires the firm to establish a quality objective that the firm demonstrates a commitment to quality through its culture, which recognises and reinforces, among others, the importance of professional ethics, values and attitudes.

Independence

5120.15 A1 Sustainability assurance practitioners are required by Sections 5400 to 5600 and Part 4B, as applicable, to be independent when performing sustainability assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or a sustainability assurance team member's integrity, objectivity or professional scepticism has been compromised.

5120.15 A2 Sections 5400 to 5600 and Part 4B set out requirements and application material on how to apply the conceptual framework to maintain independence when performing sustainability assurance engagements. Sustainability assurance practitioners and firms are required to comply with these requirements and application material in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 5120.6 A3 are also the categories of threats to compliance with independence requirements.

5120.15 A3 Conditions, policies and procedures described in paragraphs 5120.6 A1 and 5120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of sustainability assurance engagements, a system of quality management designed, implemented and operated by a firm in accordance with the quality management standards issued by the New Zealand Auditing and Assurance Standards Board is an example of such conditions, policies and procedures.

Professional Scepticism

5120.16 A1 Under sustainability assurance standards, including those issued by the New Zealand Auditing and Assurance Standards Board, sustainability assurance practitioners are

required to exercise professional scepticism when planning and performing sustainability assurance engagements. Professional scepticism and the fundamental principles that are described in Section 5110 are inter-related concepts.

5120.16 A2 In a sustainability assurance engagement that is within the scope of the *International Independence Standards (New Zealand)* in this Part, compliance with the fundamental principles, individually and collectively, supports the exercise of professional scepticism, as shown in the following examples:

- *Integrity* requires the sustainability assurance practitioner to be straightforward and honest. For example, the practitioner complies with the principle of integrity by:
    - Being straightforward and honest when raising concerns about a position taken by a sustainability assurance client.
    - Pursuing inquiries about inconsistent information and seeking further evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.
    - Having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organisational consequences. Acting appropriately involves:

        (a) Standing one's ground when confronted by dilemmas and difficult situations; or

        (b) Challenging others as and when circumstances warrant,

        in a manner appropriate to the circumstances.

  In doing so, the practitioner demonstrates the critical assessment of evidence that contributes to the exercise of professional scepticism.
- *Objectivity* requires the sustainability assurance practitioner to exercise professional or business judgement without being compromised by:

  (a) Bias;

  (b) Conflict of interest; or

  (c) Undue influence of, or undue reliance on, individuals, organisations, technology or other factors.

  For example, the practitioner complies with the principle of objectivity by:

  (a) Recognising circumstances or relationships such as familiarity with the sustainability assurance client, that might compromise the practitioner's professional or business judgement; and

  (b) Considering the impact of such circumstances and relationships on the practitioner's judgement when evaluating the sufficiency and appropriateness of evidence related to a matter material to the client's sustainability information.

  In doing so, the practitioner behaves in a manner that contributes to the exercise of professional scepticism.
- *Professional competence and due care* requires the sustainability assurance practitioner to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance

with applicable standards, laws and regulations. For example, the practitioner complies with the principle of professional competence and due care by:

(a) Applying knowledge that is relevant to a particular sustainability assurance client's industry and business activities in order to properly identify risks of material misstatement;

(b) Designing and performing appropriate assurance procedures; and

(c) Applying relevant knowledge when critically assessing whether evidence is sufficient and appropriate in the circumstances.

In doing so, the practitioner behaves in a manner that contributes to the exercise of professional scepticism.

SECTION 5270 PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Introduction

5270.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.

5270.2 Pressure exerted on, or by, a sustainability assurance practitioner might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

R5270.3 A sustainability assurance practitioner shall not:

(a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or

(b) Place pressure on others that the practitioner knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

5270.3 A1 A sustainability assurance practitioner might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity for a sustainability assurance client. Pressure might be explicit or implicit and might come from:

- The sustainability assurance client.
- Within the firm, for example, from a colleague or superior.
- Another external organisation or individual such as a supplier, customer or lender of the sustainability assurance client or of the firm.
- Internal or external targets and expectations.

5270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:

- Pressure related to conflicts of interest:
  - Pressure from a family member bidding to act as a counterparty to a transaction involving a sustainability assurance client to select the family member over other counterparties.

See also Section 5310, *Conflicts of Interest*.

- Pressure to act without sufficient expertise or due care:
  - Pressure from a sustainability assurance client to express an opinion on sustainability information that is not supported by the evidence obtained from the assurance procedures performed.
  - Pressure from a sustainability assurance client to inappropriately alter the scope of the sustainability assurance engagement to influence how the client's sustainability goals or practices are perceived.

- Pressure from a sustainability assurance client to deviate from the recommended approach when setting the scope of a voluntary sustainability assurance engagement.
- Pressure from a sustainability assurance client not to enquire about strategy-related assumptions used in the forward-looking information prepared by the client and subject to assurance procedures.
- Pressure from superiors to inappropriately reduce the extent of work performed.
- Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.

- Pressure related to inducements:
  - Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential or existing sustainability assurance clients.

See also Section 5340, *Inducements, Including Gifts and Hospitality.*

- Pressure related to non-compliance with laws and regulations:
  - Pressure to overlook potential breaches of environmental or safety regulations applicable to a sustainability assurance client.

See also Section 5360, Responding to Non-compliance with Laws and Regulations.

- Pressure related to level of fees:
  - Pressure exerted by a superior or a colleague of a sustainability assurance practitioner to provide professional services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with technical and professional standards.

See also Section 5330, Fees and Other Types of Remuneration

5270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the firm including the extent to which they reflect or emphasise the importance of ethical behaviour and the expectation that personnel will act ethically. For example, a corporate culture that tolerates unethical behaviour might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the firm has established, such as ethics or human resources policies that address pressure.

5270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the sustainability assurance practitioner to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with the practitioner's superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the firm, including when appropriate, explaining any consequential risks to the firm, for example with:
    - Higher levels of management.
    - Internal or external auditors.
    - Those charged with governance.
- Disclosing the matter in line with the firm's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
- Consulting with:
    - A colleague, superior, human resources personnel, or another sustainability assurance practitioner;
    - Relevant professional or regulatory bodies or industry associations; or
    - Legal counsel.

5270.3 A5 An example of an action that might eliminate threats created by pressure is the sustainability assurance practitioner's request for a restructure of, or segregation of, certain responsibilities and duties relating to the professional services performed for a sustainability assurance client so that the practitioner is no longer involved with the individual or entity exerting the pressure.

Documentation

5270.4 A1 The sustainability assurance practitioner is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.
- How the matter was addressed.

SECTION 5300 APPLYING THE CONCEPTUAL FRAMEWORK

Introduction

5300.1 Sections 5300 to 5390 set out requirements and application material for sustainability assurance practitioners when applying the conceptual framework set out in Section 5120. They do not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by practitioners, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires sustainability assurance practitioners to be alert for such facts and circumstances.

[Paragraphs 5300.2 and 5300.3 are intentionally left blank]

Requirements and Application Material

General

R5300.4 A sustainability assurance practitioner shall comply with the fundamental principles set out in Section 5110 and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to compliance with the fundamental principles.

[Paragraphs R5300.5 and 5300.5 A1 are intentionally left blank]

5300.5 A2 The more senior the position of a sustainability assurance practitioner, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, practitioners are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behaviour in dealings with individuals with whom, and entities with which, the practitioner or the firm has a professional or business relationship in accordance with paragraph 5120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

(Ref: Paras. 5120.13 A1 to 5120.13 A3).

Identifying Threats

5300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 5120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a sustainability assurance practitioner when undertaking a professional service for a sustainability assurance client:

(a) Self-interest Threats

- A sustainability assurance practitioner having a direct financial interest in a sustainability assurance client.
- A sustainability assurance practitioner quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the

professional service in accordance with applicable technical and professional standards for that price.

- A sustainability assurance practitioner having a close business relationship with a sustainability assurance client.
- A sustainability assurance practitioner having incentives linked to the outcome of a sustainability assurance engagement.
- A sustainability assurance practitioner discovering a significant error when evaluating the results of a previous professional service performed by a member of the practitioner's firm.

(b) Self-review Threats

- A sustainability assurance practitioner issuing an assurance report on the effectiveness of the operation of systems that generate sustainability information after designing or implementing the systems.
- A sustainability assurance practitioner having contributed to the preparation of data used to generate information that is subject to procedures in the sustainability assurance engagement.
- A sustainability assurance practitioner having provided sustainability-related services other than sustainability assurance engagements for an entity in a sustainability assurance client's value chain, the outcome of which is subject to procedures in the sustainability assurance engagement for the client.
- A sustainability assurance practitioner having provided a valuation or forecasting service the outcome of which is subject to procedures in the sustainability assurance engagement for the sustainability assurance client.

(c) Advocacy Threats

- A sustainability assurance practitioner promoting the interests of a sustainability assurance client.
- A sustainability assurance practitioner acting as an advocate on behalf of a sustainability assurance client in litigation or disputes with third parties.
- A sustainability assurance practitioner lobbying in favour of legislation on behalf of a sustainability assurance client.
- A sustainability assurance practitioner promoting a particular sustainability-related initiative, product or service on behalf of a sustainability assurance client.

(d) Familiarity Threats

- A sustainability assurance practitioner having a close or immediate family member who is a director or officer of the sustainability assurance client.
- A director or officer of the sustainability assurance client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement leader.
- A sustainability assurance team member having a long association with the sustainability assurance client.

- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

(e) Intimidation Threats

- A sustainability assurance practitioner being threatened with dismissal from a professional service performed for a sustainability assurance client or the firm because of a disagreement about a professional matter.
- A sustainability assurance practitioner feeling pressured to agree with the judgement of a sustainability assurance client because the client has more expertise on the matter in question.
- A sustainability assurance practitioner being informed that a planned promotion will not occur unless the practitioner agrees with an inappropriate sustainability-related analysis or conclusion.
- A sustainability assurance practitioner having accepted a significant gift from a sustainability assurance client and being threatened that acceptance of this gift will be made public.

Identifying Threats Associated with the Use of Technology

5300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a sustainability assurance practitioner when undertaking a professional activity for a sustainability assurance client:

- Self-interest Threats
  - The data available might not be sufficient for the effective use of the technology.
  - The technology might not be appropriate for the purpose for which it is to be used.
  - The practitioner might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.
- Self-review Threats
  - The technology was designed or developed using the knowledge, expertise or judgement of the practitioner or firm.

Evaluating Threats

5300.7 A1 The conditions, policies and procedures described in paragraphs 5120.6 A1 and 5120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level. Such conditions, policies and procedures might relate to:

(a) The sustainability assurance client and its operating environment; and

(b) The firm and its operating environment.

5300.7 A2 The sustainability assurance practitioner's evaluation of the level of a threat is also impacted by the nature and scope of the professional service.

The Sustainability Assurance Client and its Operating Environment

5300.7 A3 The sustainability assurance practitioner's evaluation of the level of a threat might be impacted by whether the client is a sustainability assurance client:

(a) For which the practitioner performs a sustainability assurance engagement within the scope of the *International Independence Standards (New Zealand)* in this Part;

(b) For which the practitioner also performs an audit engagement;

(c) For which other assurance or non-assurance services are also provided and, if so, the nature of those services; or

(d) Which is a public interest entity.

For example, providing a non-assurance service to a sustainability assurance client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the sustainability assurance engagement.

5300.7 A4 The corporate governance structure, including the leadership of a sustainability assurance client, might promote compliance with the fundamental principles. Accordingly, a sustainability assurance practitioner's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

5300.7 A4a The sustainability assurance practitioner's evaluation of the level of a threat might be impacted by the quantitative and qualitative characteristics of a sustainability assurance client's value chain. For example, the evaluation of a threat to compliance with the principle of professional competence and due care might be impacted if the sustainability information that is subject to assurance comes from multiple suppliers that are geographically dispersed or is prepared in accordance with different reporting frameworks.

The Firm and its Operating Environment

5300.7 A5 A sustainability assurance practitioner's evaluation of the level of a threat might be impacted by the work environment within the practitioner's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that sustainability assurance team members will act in the public interest when providing sustainability assurance.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.

- Management of the reliance on revenue received from a single sustainability assurance client.
- The engagement leader having authority within the firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a sustainability assurance client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

5300.7 A6 The sustainability assurance practitioner's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the practitioner's firm and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

Consideration of New Information or Changes in Facts and Circumstances

5300.7 A7 New information or changes in facts and circumstances might:

(a) Impact the level of a threat; or

(b) Affect the sustainability assurance practitioner's conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the sustainability assurance practitioner re-evaluate and address the threats accordingly. (Ref: Paras. R5120.9 and R5120.10).

5300.7 A8 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.
- When the sustainability assurance client becomes a publicly traded entity or acquires another business unit.
- When the firm merges with another firm.
- When the sustainability assurance practitioner is jointly engaged by a sustainability assurance client and another client and a dispute emerges between the two clients.
- When there is a change in the sustainability assurance practitioner's personal or immediate family relationships.

Addressing Threats

5300.8 A1 Paragraphs R5120.10 to 5120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

Examples of Safeguards

5300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team review the work performed or advise as necessary might address a self-review threat.
- Using different leaders and teams with separate reporting lines for the provision of non-assurance services to a sustainability assurance client might address self-review, advocacy or familiarity threats.
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to sustainability assurance clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

5300.8 A3 The remaining sections of this Part describe certain threats that might arise during the course of performing professional services for sustainability assurance clients and include examples of actions that might address threats.

Appropriate Reviewer

5300.8 A4 An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided to a sustainability assurance client. Such an individual might be a sustainability assurance practitioner.

Communicating with Those Charged with Governance

R5300.9 When communicating with those charged with governance in accordance with this Part, a sustainability assurance practitioner shall determine the appropriate individual(s) within the sustainability assurance client's governance structure with whom to communicate. If the practitioner communicates with a subgroup of those charged with governance, the practitioner shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

5300.9 A1 In determining with whom to communicate, a sustainability assurance practitioner might consider:

(a) The nature and importance of the circumstances; and

(b) The matter to be communicated.

5300.9 A2 Examples of a subgroup of those charged with governance include an audit committee or another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.

R5300.10 If a sustainability assurance practitioner communicates with individuals who have management responsibilities as well as governance responsibilities, the practitioner shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the practitioner would otherwise communicate.

5300.10 A1 In some circumstances, all of those charged with governance are involved in managing the sustainability assurance client, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s)

also have governance responsibilities, the sustainability assurance practitioner has satisfied the requirement to communicate with those charged with governance.

Using Non-Assurance Work of Another Practitioner

R5300.11 A sustainability assurance practitioner who intends to use non-assurance work performed by another practitioner for purposes of a sustainability assurance engagement shall exercise professional judgement to determine the appropriate steps to take, if any, in order to fulfil the sustainability assurance practitioner's responsibilities to comply with the fundamental principles of integrity, objectivity and professional competence and due care.

5300.11 A1 For the purposes of this section, the non-assurance work performed by another practitioner excludes the work of an external expert. When a sustainability assurance practitioner intends to use the work of an external expert, the requirements and application material set out in Section 5390 apply. When a sustainability assurance practitioner intends to use assurance work performed by another practitioner for purposes of a sustainability assurance engagement, the requirements and application material set out in Section 5406 apply.

5300.11 A2 Factors to consider in determining the appropriate steps to take, if any, when a sustainability assurance practitioner intends to use the non-assurance work of another practitioner include:

- The reputation and competence of, and resources available to, that other practitioner.
- Whether that other practitioner is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, that other practitioner.

SECTION 5310 CONFLICTS OF INTEREST

Introduction

5310.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.

5310.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:

(a) A sustainability assurance practitioner provides a professional service related to a particular matter for a sustainability assurance client and another client whose interests with respect to that matter are in conflict; or

(b) The interests of a sustainability assurance practitioner with respect to a particular matter and the interests of the sustainability assurance client for whom the practitioner provides a professional service related to that matter are in conflict.

5310.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When a sustainability assurance practitioner performs a sustainability assurance engagement, independence is also required in accordance with this Part or Part 4B, as applicable.

Requirements and Application Material

General

R5310.4 A sustainability assurance practitioner shall not allow a conflict of interest to compromise professional or business judgement.

5310.4 A1 Examples of circumstances that might create a conflict of interest include:

- Providing a transaction advisory service to a client seeking to acquire a sustainability assurance client, where the firm has obtained confidential information during the course of the sustainability assurance engagement that might be relevant to the transaction.
- Providing advice to a sustainability assurance client and another client at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
- Representing a sustainability assurance client and another client in the same matter who are in a legal dispute with each other.
- Advising a sustainability assurance client to invest in a business in which, for example, the spouse of the practitioner has a financial interest.
- Providing strategic advice to a sustainability assurance client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
- Advising a sustainability assurance client on acquiring a business which the firm is also interested in acquiring.
- Advising a sustainability assurance client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

Conflict Identification

General

R5310.5 Before accepting a new sustainability assurance client relationship, engagement, or business relationship, a sustainability assurance practitioner shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

(a) The nature of the relevant interests and relationships between the parties involved; and

(b) The service and its implication for relevant parties.

5310.5 A1 An effective conflict identification process assists a sustainability assurance practitioner when taking reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. Such a process includes considering matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the practitioner being able to address threats created by the conflict of interest.

5310.5 A2 An effective process to identify actual or potential conflicts of interest will take into account factors such as:

- The nature of the professional services provided.
- The size of the firm.
- The size and nature of the client base.
- The structure of the firm, for example, the number and geographic location of offices.

5310.5 A3 More information on client acceptance is set out in Section 5320, Professional Appointments.

Changes in Circumstances

R5310.6 A sustainability assurance practitioner shall remain alert to changes over time in the nature of services, interests and relationships that might create a conflict of interest while performing an engagement.

5310.6 A1 The nature of services, interests and relationships might change during the engagement. This is particularly true when a sustainability assurance practitioner is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the practitioner initially might not be involved in a dispute.

Network Firms

R5310.7 If the firm is a member of a network, a sustainability assurance practitioner shall consider conflicts of interest that the practitioner has reason to believe might exist or arise due to interests and relationships of a network firm.

5310.7 A1 Factors to consider when identifying interests and relationships involving a network firm include:

- The nature of the professional services provided.
- The clients served by the network.

- The geographic locations of all relevant parties.

Threats Created by Conflicts of Interest

5310.8 A1 In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

5310.8 A2 Factors that are relevant in evaluating the level of a threat created by a conflict of interest include measures that prevent unauthorised disclosure of confidential information when performing professional services related to a particular matter for a sustainability assurance client and another client whose interests with respect to that matter are in conflict. These measures include:

- The existence of separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas.
- Policies and procedures to limit access to client files.
- Confidentiality agreements signed by personnel and leaders of the firm.
- Separation of confidential information physically and electronically.
- Specific and dedicated training and communication.

5310.8 A3 Examples of actions that might be safeguards to address threats created by a conflict of interest include:

- Having separate teams who are provided with clear policies and procedures on maintaining confidentiality.
- Having an appropriate reviewer, who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgements and conclusions are appropriate.

Disclosure and Consent

General

R5310.9 A sustainability assurance practitioner shall exercise professional judgement to determine whether the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary when addressing the threat created by the conflict of interest.

NZ R5310.9.1 If an assurance practitioner has a conflict of interest but can apply safeguards to eliminate the threat or reduce it to an acceptable level, the sustainability assurance practitioner shall disclose, in writing, the nature of the conflict of interest and related safeguards, if any, to all clients or potential clients affected by the conflict.

NZ R5310.9.2 When safeguards are required to reduce the threat to an acceptable level, the sustainability assurance practitioner shall obtain, in writing, the clients' consent to the sustainability assurance practitioner performing the sustainability assurance services.

5310.9 A1 Factors to consider when determining whether specific disclosure and explicit consent are necessary include:

- The circumstances creating the conflict of interest.
- The parties that might be affected.
- The nature of the issues that might arise.

- The potential for the particular matter to develop in an unexpected manner.

5310.9 A2 Disclosure and consent might take different forms, for example:

- General disclosure to clients of circumstances where, as is common commercial practice, the sustainability assurance practitioner does not provide professional services exclusively to any one client (for example, in a particular professional service and market sector). This enables the client to provide general consent accordingly. For example, a practitioner might make general disclosure in the standard terms and conditions for the engagement.
- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances and a comprehensive explanation of any planned safeguards and the risks involved.
- Consent might be implied by clients' conduct in circumstances where the sustainability assurance practitioner has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

5310.9 A3 *[Deleted by the NZAuASB. Refer NZ R5310.9.1 and NZ R5310.9.2]*

5310.9 A4 *[Deleted by the NZAuASB. Refer NZ R5310.9.1 and NZ R5310.9.2]*

When Explicit Consent is Refused

R5310.10 If a sustainability assurance practitioner has determined that explicit consent is necessary in accordance with paragraph R5310.9 and the sustainability assurance client has refused to provide consent, the practitioner shall either:

(a) End or decline to perform professional services that would result in the conflict of interest; or

(b) End relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

Confidentiality

General

R5310.11 A sustainability assurance practitioner shall remain alert to the principle of confidentiality, including when making disclosures or sharing information within the firm or network and seeking guidance from third parties.

5310.11 A1 Subsection 5114 sets out requirements and application material relevant to situations that might create a threat to compliance with the principle of confidentiality.

When Disclosure to Obtain Consent would Breach Confidentiality

R5310.12 *[Deleted by the NZAuASB. Refer to NZ R5310.12.1]*

NZ R5310.12.1 In those circumstances where adequate disclosure is not possible by reason of constraints of confidentiality, the assurance practitioner shall end or decline the relevant assurance engagement.

5310.12 A1 *[Deleted by the NZAuASB. Refer to NZ R5310.12.1]*

Documentation

R5310.13 [Deleted by the NZAuASB]

SECTION 5320 PROFESSIONAL APPOINTMENTS

Introduction

5320.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.

5320.2 Acceptance of a new sustainability assurance client relationship or changes in an existing engagement might create a threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Client and Engagement Acceptance

General

5320.3 A1 Threats to compliance with the principles of integrity or professional behaviour might be created, for example, from questionable issues associated with the sustainability assurance client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial or non-financial, including sustainability, reporting practices or other unethical behaviour.

5320.3 A2 Factors that are relevant in evaluating the level of such a threat include:

- Knowledge and understanding of the sustainability assurance client, its owners, management and those charged with governance and business activities.
- The sustainability assurance client's commitment to address questionable issues, for example, through improving corporate governance practices or internal controls.

5320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the team does not possess, or cannot acquire, the competencies to perform the professional services.

5320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
  - The nature of the sustainability assurance client's business;
  - The complexity of its operations;
  - The quantitative and qualitative characteristics of the sustainability assurance client's value chain;
  - The requirements of the engagement; and
  - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as Professional and Ethical Standard 3, that respond to quality risks relating to the

firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

- The level of fees and the extent to which they have regard to the resources required, taking into account the sustainability assurance practitioner's commercial and market priorities.

5320.3 A5 Examples of actions that might be safeguards to address a self-interest threat include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

Changes in a Professional Appointment

General

R5320.4 A sustainability assurance practitioner shall determine whether there are any reasons for not accepting an engagement when the practitioner:

(a) Is asked by a potential sustainability assurance client to replace another sustainability assurance practitioner;

(b) Considers tendering for an engagement held by a different practitioner for a sustainability assurance client; or

(c) Considers undertaking work for a sustainability assurance client that is complementary or additional to that of a different practitioner.

5320.4 A1 There might be reasons for not accepting an engagement. One such reason might be if a threat created by the facts and circumstances cannot be addressed by applying safeguards. For example, there might be a self-interest threat to compliance with the principle of professional competence and due care if a sustainability assurance practitioner accepts the engagement before knowing all the relevant facts.

5320.4 A2 If a sustainability assurance practitioner is asked by a sustainability assurance client to undertake work that is complementary or additional to the work of an existing or predecessor practitioner, a self-interest threat to compliance with the principle of professional competence and due care might be created, for example, as a result of incomplete information.

5320.4 A3 A factor that is relevant in evaluating the level of such a threat is whether tenders state that, before accepting the engagement, contact with the existing or predecessor practitioner will be requested. This contact gives the proposed practitioner the opportunity to enquire whether there are any reasons why the engagement should not be accepted.

5320.4 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Asking the existing or predecessor practitioner to provide any known information of which, in the existing or predecessor practitioner's opinion, the proposed practitioner needs to be aware before deciding whether to accept the engagement. For example, inquiry might reveal previously undisclosed pertinent facts and might indicate disagreements with the existing or predecessor practitioner that might influence the decision to accept the appointment.

- Obtaining information from other sources such as through inquiries of third parties or background investigations regarding senior management or those charged with governance of the sustainability assurance client.

Communicating with the Existing or Predecessor Practitioner

5320.5 A1 A proposed practitioner will usually need the sustainability assurance client's permission, preferably in writing, to initiate discussions with the existing or predecessor practitioner.

R5320.6 If unable to communicate with the existing or predecessor practitioner, the proposed practitioner shall take other reasonable steps to obtain information about any possible threats.

Communicating with the Proposed Practitioner

R5320.7 When an existing or predecessor practitioner is asked to respond to a communication from a proposed practitioner, the existing or predecessor practitioner shall:

(a) Comply with relevant laws and regulations governing the request; and

(b) Provide any information honestly and unambiguously.

5320.7 A1 An existing or predecessor practitioner is bound by confidentiality. Whether the existing or predecessor practitioner is permitted or required to discuss the affairs of a sustainability assurance client with a proposed practitioner will depend on the nature of the engagement and:

(a) Whether the existing or predecessor practitioner has permission from the sustainability assurance client for the discussion; and

(b) The legal and ethics requirements relating to such communications and disclosure, which might vary by jurisdiction.

5320.7 A2 Circumstances where a sustainability assurance practitioner is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 5114.3 A1.

Changes in Sustainability Assurance Appointments

R5320.8 In the case of a sustainability assurance engagement within the scope of the *International Independence Standards (New Zealand)* in this Part, a sustainability assurance practitioner shall request the existing or predecessor practitioner to provide known information regarding any facts or other information of which, in the existing or predecessor practitioner's opinion, the proposed practitioner needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving non-compliance or suspected non-compliance with laws and regulations set out in paragraphs R5360.21 and R5360.22:

(a) If the sustainability assurance client consents to the existing or predecessor practitioner disclosing any such facts or other information, the existing or predecessor practitioner shall provide the information honestly and unambiguously; and

(b) If the sustainability assurance client fails or refuses to grant the existing or predecessor practitioner permission to discuss the client's affairs with the proposed practitioner, the existing or predecessor practitioner shall disclose this fact to the proposed practitioner, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

Client and Engagement Continuance

R5320.9 For a recurring engagement for a sustainability assurance client, a sustainability assurance practitioner shall periodically review whether to continue with the engagement.

5320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the sustainability assurance practitioner to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity might be created by improper sustainability reporting, such as changes in measurement methodology to create the appearance of a positive trend in a key performance indicator.

Using the Work of an Expert

R5320.10 When a sustainability assurance practitioner intends to use the work of an expert in the course of undertaking a professional activity, the practitioner shall determine whether the use is appropriate for the intended purpose.

5320.10 A1 For the purposes of this section, the work of an external expert is excluded. When a sustainability assurance practitioner intends to use the work of an external expert, the requirements and application material set out in Section 5390 apply.

5320.10 A2 Factors to consider when a sustainability assurance practitioner intends to use the work of an expert include:

- The reputation and expertise of, and the resources available to, the expert.
- Whether the expert is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the expert.

Using the Output of Technology

R5320.11 When a sustainability assurance practitioner intends to use the output of technology in the course of undertaking a professional activity for a sustainability assurance client, the practitioner shall determine whether the use is appropriate for the intended purpose.

5320.11 A1 Factors to consider when a sustainability assurance practitioner intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the practitioner has the ability, or access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The firm's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorising user access to the technology and overseeing such use.

- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

Other Considerations

5320.12 A1 When a sustainability assurance practitioner is considering using the work of experts or the output of technology, a consideration is whether the practitioner is in a position within the firm to obtain information in relation to the factors necessary to determine whether such use is appropriate.

SECTION 5325 OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS

Introduction

5325.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.

5325.2 Appointing an engagement quality reviewer who has involvement in the work being reviewed or close relationships with those responsible for performing that work might create threats to compliance with the principle of objectivity.

5325.3 This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an engagement quality reviewer for a sustainability assurance client.

5325.4 An engagement quality reviewer is also an example of an appropriate reviewer as described in paragraph 5300.8 A4. Therefore, the application material in this section might apply in circumstances where a sustainability assurance practitioner appoints an appropriate reviewer to review work performed as a safeguard to address identified threats.

Application Material

General

5325.5 A1 Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. For example, Professional and Ethical Standard 3 establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance with Professional and Ethical Standard 4 .

5325.5 A2 An engagement quality reviewer is a leader, partner, or other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Identifying Threats

5325.6 A1 The following are examples of circumstances where threats to the objectivity of an individual appointed as an engagement quality reviewer might be created:

(a) Self-interest threat

- Two engagement leaders each serving as an engagement quality reviewer for the other's engagement.

(b) Self-review threat

- An individual serving as an engagement quality reviewer on a sustainability assurance engagement after previously serving as the engagement leader.

(c) Familiarity threat

- An individual serving as an engagement quality reviewer has a close relationship with or is an immediate family member of another individual who is involved in the engagement.

(d) Intimidation threat

- An individual serving as an engagement quality reviewer for an engagement has a direct reporting line to the leader responsible for the engagement.

Evaluating Threats

5325.7 A1 Factors that are relevant in evaluating the level of threats to the objectivity of an individual appointed as an engagement quality reviewer include:

- The role and seniority of the individual.
- The nature of the individual's relationship with others involved on the engagement.
- The length of time the individual was previously involved with the engagement and the individual's role.
- When the individual was last involved in the engagement prior to being appointed as engagement quality reviewer and any subsequent relevant changes to the circumstances of the engagement.
- The nature and complexity of issues that required significant judgement from the individual in any previous involvement in the engagement.

Addressing Threats

5325.8 A1 An example of an action that might eliminate an intimidation threat is reassigning reporting responsibilities within the firm.

5325.8 A2 An example of an action that might be a safeguard to address a self-review threat is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an engagement quality reviewer.

Cooling-off Period

5325.8 A3 Quality management standards might require the firm to establish policies or procedures that specify, as a condition for eligibility, a cooling-off period before the engagement leader can assume the role of engagement quality reviewer. This serves to enable compliance with the principle of objectivity and the consistent performance of quality engagements. For example, Professional and Ethical Standard 4 requires a cooling-off period of two years.

5325.8 A4 The cooling-off period that might be required by quality management standards such as Professional and Ethical Standard 4 is distinct from, and does not modify, the leader rotation requirements in Section 5540, which are designed to address threats to independence created by long association with a sustainability assurance client.

SECTION 5330 FEES AND OTHER TYPES OF REMUNERATION

Introduction

5330.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.

5330.2 The level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

Level of Fees

5330.3 A1 The level of fees might impact a sustainability assurance practitioner's ability to perform professional services for sustainability assurance clients in accordance with technical and professional standards.

5330.3 A2 A sustainability assurance practitioner might quote whatever fee is considered appropriate. Quoting a fee lower than a different practitioner is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.

5330.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- Whether the sustainability assurance client is aware of the terms of the engagement and, in particular, the basis on which fees are determined and which professional services are covered.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

5330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Adjusting the level of fees or the scope of the engagement.
- Having an appropriate reviewer review the work performed.

Contingent Fees

5330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.

5330.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis or metrics for determining the fee.
- Disclosure to intended users of the work performed by the sustainability assurance practitioner and the basis of remuneration.

- Quality management policies and procedures.
- Whether an independent third party is to review the outcome or result of the work.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

5330.4 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the service review the work performed by the sustainability assurance practitioner.
- Obtaining an advance written agreement with the sustainability assurance client on the basis of remuneration.

5330.4 A4 Requirements and application material related to contingent fees for services provided to sustainability assurance clients are set out in Section 5410 and Section 905.

Referral Fees or Commissions

NZ R5330.5 A sustainability assurance practitioner shall not accept or pay referral fees, commissions or other similar benefits in connection with a sustainability assurance engagement.

5330.5 A1 *[Deleted by the NZAuASB. Refer to NZ R5330.5 and NZ 5330.5 A1.1]*

NZ 5330.5 A1.1 The receipt or payment of referral fees, commissions or other similar benefits in connection with a sustainability assurance engagement creates a threat to independence that no safeguards could reduce to an acceptable level.

5330.5 A2 *[Deleted by the NZAuASB. Refer to NZ R5330.5 and NZ 5330.5 A1.1]*

Purchase or Sale of a Firm

5330.6 A1 A sustainability assurance practitioner may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not referral fees or commissions for the purposes of this section.

SECTION 5340 INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY

Introduction

5340.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.

5340.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behaviour.

5340.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when performing professional services for sustainability assurance clients that does not constitute non-compliance with laws and regulations. This section also requires a sustainability assurance practitioner to comply with relevant laws and regulations when offering or accepting inducements.

Requirements and Application Material

General

5340.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour. Inducements can range from minor acts of hospitality between sustainability assurance practitioners and existing or prospective sustainability assurance clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:

- Gifts.
- Hospitality.
- Entertainment.
- Political or charitable donations.
- Appeals to friendship and loyalty.
- Employment or other commercial opportunities.
- Preferential treatment, rights or privileges.

Inducements Prohibited by Laws and Regulations

R5340.5 In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The sustainability assurance practitioner shall obtain an understanding of relevant laws and regulations and comply with them when the practitioner encounters such circumstances.

Inducements Not Prohibited by Laws and Regulations

5340.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

Inducements with Intent to Improperly Influence Behaviour

R5340.7 A sustainability assurance practitioner shall not offer, or encourage others to offer, any inducement that is made, or which the practitioner considers a reasonable and informed

third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

R5340.8 A sustainability assurance practitioner shall not accept, or encourage others to accept, any inducement that the practitioner concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behaviour of the recipient or of another individual.

5340.9 A1 An inducement is considered as improperly influencing an individual's behaviour if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a sustainability assurance practitioner in considering what constitutes unethical behaviour on the part of the practitioner and, if necessary by analogy, other individuals.

5340.9 A2 A breach of the fundamental principle of integrity arises when a sustainability assurance practitioner offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behaviour of the recipient or of another individual.

5340.9 A3 The determination of whether there is actual or perceived intent to improperly influence behaviour requires the exercise of professional judgement. Relevant factors to consider might include:

- The nature, frequency, value and cumulative effect of the inducement.
- Timing of when the inducement is offered relative to any action or decision that it might influence.
- Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
- Whether the inducement is an ancillary part of a professional service, for example, offering or accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the firm, such as other suppliers to the sustainability assurance client.
- The roles and positions of the individuals at the firm or the sustainability assurance client offering or being offered the inducement.
- Whether the sustainability assurance practitioner knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the sustainability assurance client.
- The degree of transparency with which the inducement is offered.
- Whether the inducement was required or requested by the recipient.
- The known previous behaviour or reputation of the offeror.

Consideration of Further Actions

5340.10 A1 If the sustainability assurance practitioner becomes aware of an inducement offered with actual or perceived intent to improperly influence behaviour, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R5340.7 and R5340.8 are met.

5340.10 A2 Examples of actions that might be safeguards to address such threats include:

- Informing senior management of the firm or those charged with governance of the sustainability assurance client regarding the offer.
- Amending or terminating the business relationship with the sustainability assurance client.

Inducements with No Intent to Improperly Influence Behaviour

5340.11 A1 The requirements and application material set out in the conceptual framework apply when a sustainability assurance practitioner has concluded there is no actual or perceived intent to improperly influence the behaviour of the recipient or of another individual.

5340.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

5340.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the sustainability assurance practitioner has concluded there is no actual or perceived intent to improperly influence behaviour include:

- Self-interest threats
  - A sustainability assurance practitioner is offered hospitality from the prospective acquirer of a sustainability assurance client while providing corporate finance services to the client.
- Familiarity threats
  - A sustainability assurance practitioner regularly takes an existing or prospective sustainability assurance client to sporting events.
- Intimidation threats
  - A sustainability assurance practitioner accepts hospitality from a sustainability assurance client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

5340.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 5340.9 A3 for determining intent.

5340.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.
- Transferring responsibility for the provision of any professional services to the sustainability assurance client to another individual who the sustainability assurance practitioner has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.

5340.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management of the firm or of the sustainability assurance client about offering or accepting an inducement.
- Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance or maintained by the sustainability assurance client.

- Having an appropriate reviewer, who is not otherwise involved in providing the professional service to the sustainability assurance client, review any work performed or decisions made by the sustainability assurance practitioner with respect to the client from which the practitioner accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

Immediate or Close Family Members

R5340.12 A sustainability assurance practitioner shall remain alert to potential threats to the practitioner's compliance with the fundamental principles created by the offering of an inducement:

(a) By an immediate or close family member of the practitioner to an existing or prospective sustainability assurance client.

(b) To an immediate or close family member of the practitioner by an existing or prospective sustainability assurance client.

R5340.13 Where the sustainability assurance practitioner becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behaviour of the practitioner or of an existing or prospective sustainability assurance client, or considers a reasonable and informed third party would be likely to conclude such intent exists, the practitioner shall advise the immediate or close family member not to offer or accept the inducement.

5340.13 A1 The factors set out in paragraph 5340.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behaviour of the sustainability assurance practitioner or of the existing or prospective sustainability assurance client. Another factor that is relevant is the nature or closeness of the relationship, between:

(a) The practitioner and the immediate or close family member;

(b) The immediate or close family member and the existing or prospective client; and

(c) The practitioner and the existing or prospective client.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the practitioner by a client for whom the practitioner is performing a sustainability assurance engagement might indicate such intent.

5340.13 A2 The application material in paragraph 5340.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behaviour of the sustainability assurance practitioner, or of the existing or prospective sustainability assurance client even if the immediate or close family member has followed the advice given pursuant to paragraph R5340.13.

Application of the Conceptual Framework

5340.14 A1 Where the sustainability assurance practitioner becomes aware of an inducement offered in the circumstances addressed in paragraph R5340.12, threats to compliance with the fundamental principles might be created where:

(a) The immediate or close family member offers or accepts the inducement contrary to the advice of the practitioner pursuant to paragraph R5340.13; or

(b) The practitioner does not have reason to believe an actual or perceived intent to improperly influence the behaviour of the practitioner or of the existing or prospective sustainability assurance client exists.

5340.14 A2 The application material in paragraphs 5340.11 A1 to 5340.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 5340.13 A1.

Other Considerations

5340.15 A1 If a sustainability assurance practitioner encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by a sustainability assurance client or individuals working for or under the direction of the sustainability assurance client, the requirements and application material in Section 5360 apply.

5340.15 A2 If a firm, network firm or a sustainability assurance team member is being offered gifts or hospitality from a sustainability assurance client, the requirement and application material set out in Section 5420 apply.

[Paragraph 5340.15 A3 is intentionally left blank]

SECTION 5350 CUSTODY OF CLIENT ASSETS

Introduction

5350.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.

5350.2 Holding client assets creates a self-interest or other threat to compliance with the principles of professional behaviour and objectivity. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Before Taking Custody

R5350.3 A sustainability assurance practitioner shall not assume custody of money or other assets belonging to a sustainability assurance client unless permitted to do so by law and in accordance with any conditions under which such custody may be taken.

R5350.4 As part of client and engagement acceptance procedures related to assuming custody of money or assets belonging to a sustainability assurance client, a sustainability assurance practitioner shall:

(a) Make inquiries about the source of the assets; and

(b) Consider related legal and regulatory obligations.

5350.4 A1 Inquiries about the source of assets belonging to a sustainability assurance client might reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such circumstances, a threat would be created and the provisions of Section 5360 would apply.

After Taking Custody

R5350.5 A sustainability assurance practitioner entrusted with money or other assets belonging to a sustainability assurance client shall:

(a) Comply with the laws and regulations relevant to holding and accounting for the assets;

(b) Keep the assets separately from personal or firm assets;

(c) Use the assets only for the purpose for which they are intended; and

(d) Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to that accounting.

SECTION 5360 RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS

Introduction

5360.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.

5360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when a sustainability assurance practitioner becomes aware of non-compliance or suspected non-compliance with laws and regulations.

5360.3 A sustainability assurance practitioner might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a sustainability assurance client. This section guides the practitioner in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:

(a) Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the client's financial statements or sustainability information; and

(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

Objectives of the Sustainability Assurance Practitioner in Relation to Non-compliance with Laws and Regulations

5360.4 It is in the public interest that sustainability assurance practitioners act ethically in order to maintain public trust and confidence in sustainability information that is subject to assurance. When responding to non-compliance or suspected non-compliance, the objectives of the practitioner are:

(a) To comply with the principles of integrity and professional behaviour;

(b) By alerting management or, where appropriate, those charged with governance of the sustainability assurance client, to seek to:

(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or

(ii) Deter the commission of the non-compliance where it has not yet occurred; and

(c) To take such further action as appropriate in the public interest.

Requirements and Application Material

General

5360.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

(a) A sustainability assurance client;

(b) Those charged with governance of a sustainability assurance client;

(c) Management of a sustainability assurance client; or

(d) Other individuals working for or under the direction of a sustainability assurance client.

5360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labor conditions and rights of employees.
- Consumer rights.
- Data protection.
- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Tax and pension liabilities and payments.

5360.5 A3 Non-compliance might result in fines, litigation or other consequences for the sustainability assurance client, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

R5360.6 In some jurisdictions, there are legal or regulatory provisions governing how sustainability assurance practitioners should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the practitioner shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

(a) Any requirement to report the matter to an appropriate authority; and

(b) Any prohibition on alerting the sustainability assurance client.

5360.6 A1 A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.

5360.7 A1 This section applies regardless of the nature of the sustainability assurance client, including whether or not it is a public interest entity.

5360.7 A2 A sustainability assurance practitioner who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the sustainability assurance client, its stakeholders and the general public.

5360.7 A3 This section does not address:

(a) Personal misconduct unrelated to the business activities of the sustainability assurance client; and

(b) Non-compliance by parties other than those specified in paragraph 5360.5 A1. This includes, for example, when the identified or suspected non-compliance has been committed by an entity in the sustainability assurance client's value chain.

The sustainability assurance practitioner might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

Responsibilities of Management and Those Charged with Governance

5360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the sustainability assurance client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

(a) The sustainability assurance client;

(b) An individual charged with governance of the sustainability assurance client;

(c) A member of management of the sustainability assurance client; or

(d) Other individuals working for or under the direction of the sustainability assurance client.

Responsibilities of Sustainability Assurance Practitioners

R5360.9 Where a sustainability assurance practitioner becomes aware of a matter to which this section applies, the steps that the practitioner takes to comply with this section shall be taken on a timely basis while remaining alert to the principle of confidentiality. In taking these steps, the practitioner shall have regard to the nature of the matter and the potential harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

Sustainability Assurance Engagements Within the Scope of the International Independence Standards (New Zealand) in this Part

Obtaining an Understanding of the Matter

R5360.10 If a sustainability assurance practitioner engaged to perform a sustainability assurance engagement that is within the scope of the *International Independence Standards (New Zealand)* in this Part becomes aware of information concerning non-compliance or suspected non-compliance, the practitioner shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

5360.10 A1 The sustainability assurance practitioner might become aware of the non-compliance or suspected non-compliance in the course of performing the sustainability assurance engagement or through information provided by other parties.

5360.10 A2 The sustainability assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgement. However, the practitioner is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the sustainability assurance engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

5360.10 A3 Depending on the nature and significance of the matter, the sustainability assurance practitioner might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

R5360.11 If the sustainability assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the practitioner shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.

5360.11 A1 The purpose of the discussion is to:

(a) Clarify the sustainability assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter; and

(b) Consider any relevant parties that need to be informed about the matter by management or those charged with governance. Such parties might include the external auditor and/or any other sustainability assurance practitioner(s) performing a sustainability assurance engagement within the scope of the *International Independence Standards (New Zealand)* in this Part.

5360.11 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgement. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

5360.11 A3 The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the context of a group, the appropriate level might be management at an entity that controls the sustainability assurance client.

5360.11 A4 The sustainability assurance practitioner might also consider discussing the matter with internal auditors, where applicable.

R5360.12 If the sustainability assurance practitioner believes that management is involved in the non-compliance or suspected non-compliance, the practitioner shall discuss the matter with those charged with governance.

Addressing the Matter

R5360.13 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the sustainability assurance practitioner shall advise them to take appropriate and timely actions, if they have not already done so, to:

(a) Rectify, remediate or mitigate the consequences of the non-compliance;

(b) Deter the commission of the non-compliance where it has not yet occurred; or

(c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

R5360.14 The sustainability assurance practitioner shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance.

5360.14 A1 If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the sustainability assurance practitioner might suggest appropriate sources of information or recommend that they obtain legal advice.

R5360.15 The sustainability assurance practitioner shall comply with applicable:

(a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and

(b) Requirements under sustainability assurance standards, including those relating to:

- Identifying and responding to non-compliance, including fraud.
- Communicating with those charged with governance.
- Considering the implications of the non-compliance or suspected non-compliance for the sustainability assurance report.

5360.15 A1 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

Communication with Respect to Groups

R5360.16 Where the sustainability assurance practitioner becomes aware of non-compliance or suspected non-compliance in either of the following two situations in the context of a group, the practitioner shall communicate the matter to the group engagement leader unless prohibited from doing so by law or regulation:

(a) The practitioner performs sustainability assurance work related to a group component for purposes of the group's sustainability assurance engagement; or

(b) The practitioner is engaged to perform a sustainability assurance engagement for the sustainability information of a legal entity or business unit that is part of a group for purposes other than the group's sustainability assurance engagement.

The communication to the group engagement leader shall be in addition to responding to the matter in accordance with the provisions of this section.

5360.16 A1 The purpose of the communication is to enable the group engagement leader to be informed about the matter and to determine, in the context of the group's sustainability assurance engagement, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph R5360.16 applies regardless of whether the group engagement leader's firm or network is the same as or different from the sustainability assurance practitioner's firm or network.

R5360.17 Where the group engagement leader becomes aware of non-compliance or suspected non-compliance in the course of a group's sustainability assurance engagement, the group engagement leader shall consider whether the matter might be relevant to:

(a) One or more group components subject to sustainability assurance work for purposes of the group's sustainability assurance engagement; or

(b) One or more legal entities or business units that are part of the group and whose sustainability information is subject to assurance for purposes other than the group's sustainability assurance engagement.

This consideration shall be in addition to responding to the matter in the context of the group's sustainability assurance engagement in accordance with the provisions of this section.

R5360.18 If the non-compliance or suspected non-compliance might be relevant to one or more of the group components specified in paragraph R5360.17(a) and legal entities or business units specified in paragraph R5360.17(b), the group engagement leader shall take steps to have the matter communicated to those performing sustainability assurance work at the group components, legal entities or business units, unless prohibited from doing so by law or regulation. If necessary, the group engagement leader shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant legal entities or business units specified in paragraph R5360.17(b) are subject to sustainability assurance and, if so, to ascertain to the extent practicable the identity of the practitioners.

5360.18 A1 The purpose of the communication is to enable those responsible for sustainability assurance work at the group components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement leader's firm or network is the same as or different from the firms or networks of those performing sustainability assurance work at the group components, legal entities or business units.

Communicating the Matter to the Sustainability Assurance Client's External Auditor

R5360.18a Unless prohibited from doing so by law or regulation, the sustainability assurance practitioner shall communicate the non-compliance or suspected non-compliance to the sustainability assurance client's external auditor, when the sustainability assurance client is also:

(a) An audit client of the firm; or

(b) A component of an audit client of the firm.

The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement partner.

R5360.18b The sustainability assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the sustainability assurance client's external auditor, when the sustainability assurance client is:

(a) Also an audit client, or a component of an audit client, of a network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement partner; or

(b) Not an audit client, or a component of an audit client, of the firm or a network firm.

Relevant Factors to Consider

5360.18b A1 Factors relevant to considering the communication in accordance with paragraph R5360.18b include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether management or those charged with governance have already informed the sustainability assurance client's external auditor about the matter.

Purpose of Communication

5360.18b A2 In the circumstances addressed in paragraphs R5360.18a and R5360.18b, the purpose of the communication is to enable:

(a) The engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of 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 and Section 360, respectively.

Determining Whether Further Action Is Needed

R5360.19 The sustainability assurance practitioner shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

5360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.
- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

R5360.20 In light of the response of management and, where applicable, those charged with governance, the sustainability assurance practitioner shall determine if further action is needed in the public interest.

5360.20 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the sustainability assurance client.

- Whether the sustainability assurance practitioner continues to have confidence in the integrity of management and, where applicable, those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

5360.20 A2 Examples of circumstances that might cause the sustainability assurance practitioner no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:

- The practitioner suspects or has evidence of their involvement or intended involvement in any non-compliance.
- The practitioner is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorised the reporting of, the matter to an appropriate authority within a reasonable period.

R5360.21 The sustainability assurance practitioner shall exercise professional judgement in determining the need for, and nature and extent of, further action. In making this determination, the practitioner shall take into account whether a reasonable and informed third party would be likely to conclude that the practitioner has acted appropriately in the public interest.

5360.21 A1 Further action that the sustainability assurance practitioner might take includes:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

5360.21 A2 Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the sustainability assurance practitioner's objectives under this section. In some jurisdictions, however, there might be limitations as to the further actions available to the practitioner. In such circumstances, withdrawal might be the only available course of action.

R5360.22 Where the sustainability assurance practitioner has withdrawn from the professional relationship pursuant to paragraphs R5360.20 and 5360.21 A1, the practitioner shall, on request by the proposed practitioner pursuant to paragraph R5320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed practitioner. The predecessor practitioner shall do so, even in the circumstances addressed in paragraph R5320.8(b) where the sustainability assurance client fails or refuses to grant the predecessor practitioner permission to discuss the client's affairs with the proposed practitioner, unless prohibited by law or regulation.

5360.22 A1 The facts and other information to be provided are those that, in the predecessor practitioner's opinion, the proposed practitioner needs to be aware of before deciding whether to accept the appointment. Section 5320 addresses communications from proposed practitioners.

R5360.23 If the proposed practitioner is unable to communicate with the predecessor practitioner, the proposed practitioner shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.

5360.23 A1 Other means to obtain information about the circumstances of the change of appointment include inquiries of third parties or background investigations of management or those charged with governance.

5360.24 A1 As assessment of the matter might involve complex analysis and judgements, the practitioner might consider:

- Consulting internally.
- Obtaining legal advice to understand the practitioner's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

5360.25 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

5360.25 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the sustainability assurance practitioner might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The sustainability assurance client is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The sustainability assurance client is regulated and the matter is of such significance as to threaten its license to operate.
- The sustainability assurance client is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the client's securities or pose a systemic risk to the financial markets.
- It is likely that the sustainability assurance client would sell products that are harmful to public health or safety.
- The sustainability assurance client is promoting a scheme to its clients to assist them in evading taxes.

5360.25 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the sustainability assurance practitioner or other individuals.

R5360.26 If the sustainability assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R5114.3. When making such disclosure, the practitioner shall act in good faith and exercise caution when making statements and assertions. The practitioner shall also consider whether it is appropriate to inform the sustainability assurance client of the practitioner's intentions before disclosing the matter.

Imminent Breach

R5360.27 In exceptional circumstances, the sustainability assurance practitioner might become aware of actual or intended conduct that the practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the sustainability assurance client, the practitioner shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R5114.3.

Documentation

R5360.28 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the sustainability assurance practitioner shall document:

- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the practitioner considered, the judgements made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the practitioner is satisfied that the practitioner has fulfilled the responsibility set out in paragraph R5360.20.

5360.28 A1 This documentation is in addition to complying with the documentation requirements in relation to non-compliance or suspected non-compliance under applicable sustainability assurance standards.

Sustainability Assurance Engagements Not Within the Scope of the International Independence Standards (New Zealand) in this Part and Other Professional Services

Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance

R5360.29 If a sustainability assurance practitioner engaged to perform a sustainability assurance engagement that is not within the scope of the *International Independence Standards (New Zealand)* in this Part or another professional service for a sustainability assurance client becomes aware of information concerning non-compliance or suspected non-compliance, the practitioner shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might be about to occur.

5360.29 A1 The sustainability assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgement. However, the practitioner is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the practitioner was engaged. Whether an act constitutes

actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

5360.29 A2 Depending on the nature and significance of the matter, the sustainability assurance practitioner might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

R5360.30 If the sustainability assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the practitioner shall discuss the matter with the appropriate level of management. If the practitioner has access to those charged with governance, the practitioner shall also discuss the matter with them where appropriate.

5360.30 A1 The purpose of the discussion is to clarify the sustainability assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

5360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgement. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

Communicating the Matter to the Sustainability Assurance Client's External Auditor

R5360.31 If the sustainability assurance practitioner is performing a sustainability assurance engagement that is not within the scope of the *International Independence Standards (New Zealand)* in this Part or another professional service for a sustainability assurance client that is:

(a) An audit client of the firm; or

(b) A component of an audit client of the firm,

the practitioner shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement partner.

R5360.32 If the sustainability assurance practitioner is performing a sustainability assurance engagement that is not within the scope of the *International Independence Standards (New Zealand)* in this Part or another professional service for a sustainability assurance client that is:

(a) An audit client of a network firm; or

(b) A component of an audit client of a network firm,

the practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the engagement partner.

R5360.33 If the sustainability assurance practitioner is performing a sustainability assurance engagement that is not within the scope of the *International Independence Standards (New Zealand)* in this Part or another professional service for a sustainability assurance client that is not:

(a) An audit client of the firm or a network firm; or

(b) A component of an audit client of the firm or a network firm,

the practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the sustainability assurance client's external auditor, if any.

Relevant Factors to Consider

5360.34 A1 Factors relevant to considering the communication in accordance with paragraphs R5360.31 to R5360.33 include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the sustainability assurance client to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the entity's external auditor about the matter.

Purpose of Communication

5360.35 A1 In the circumstances addressed in paragraphs R5360.31 to R5360.33, the purpose of the communication is to enable the engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of the Code.

Considering Whether Further Action Is Needed

R5360.36 The sustainability assurance practitioner shall also consider whether further action is needed in the public interest.

5360.36 A1 Whether further action is needed, and the nature and extent of it, will depend on factors such as:

- The legal and regulatory framework.
- The appropriateness and timeliness of the response of management and, where applicable, those charged with governance.
- The urgency of the situation.
- The involvement of management or those charged with governance in the matter.
- The likelihood of substantial harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

5360.36 A2 Further action by the sustainability assurance practitioner might include:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.

- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

5360.36 A3 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the sustainability assurance client to enable it to take appropriate action.

R5360.37 If the sustainability assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R5114.3. When making such disclosure, the practitioner shall act in good faith and exercise caution when making statements and assertions. The practitioner shall also consider whether it is appropriate to inform the sustainability assurance client of the practitioner's intentions before disclosing the matter.

Imminent Breach

R5360.38 In exceptional circumstances, the sustainability assurance practitioner might become aware of actual or intended conduct that the practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the sustainability assurance client, the practitioner shall exercise professional judgement and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R5114.3.

Seeking Advice

5360.39 A1 The sustainability assurance practitioner might consider:

- Consulting internally.
- Obtaining legal advice to understand the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

Documentation

5360.40 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the sustainability assurance practitioner is encouraged to document:

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, those charged with governance have responded to the matter.

- The courses of action the practitioner considered, the judgements made and the decisions that were taken.
- How the practitioner is satisfied that the practitioner has fulfilled the responsibility set out in paragraph R5360.36.

SECTION 5380 TAX PLANNING SERVICES

Introduction

5380.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.

5380.2 Providing tax planning services might create self-interest, self-review, advocacy, or intimidation threats to compliance with the fundamental principles.

5380.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the provision of tax planning services to a sustainability assurance client. This section also requires a sustainability assurance practitioner to comply with relevant tax laws and regulations when providing such services.

Requirements and Application Material

General

Public Interest Role of Sustainability Assurance Practitioners in Relation to Tax Planning Services

5380.4 A1 Sustainability assurance practitioners providing tax planning services to sustainability assurance clients play an important role by contributing their expertise to assist those clients in meeting their tax planning goals while complying with tax laws and regulations. In doing so, practitioners help to facilitate a more efficient and effective operation of a jurisdiction's tax system, which is in the public interest.

5380.4 A2 Clients are entitled to organise their affairs for tax planning purposes. While there are a variety of ways to achieve such purposes, clients have a responsibility to pay taxes as determined by the relevant tax laws and regulations. In this regard, sustainability assurance practitioners' role is to use their expertise to assist their sustainability assurance clients in achieving their tax planning goals and meeting their tax obligations. However, when practitioners provide such assistance, it might involve certain tax minimisation arrangements that, although not prohibited by tax laws and regulations, might create threats to compliance with the fundamental principles.

5380.4 A3 It is ultimately for a tribunal, court or other appropriate adjudicative body to determine whether a tax planning arrangement complies with the relevant tax laws and regulations.

Description of Tax Planning Services

5380.5 A1 Tax planning services are advisory services designed to assist a sustainability assurance client, in planning or structuring the client's affairs in a tax-efficient manner.

5380.5 A2 Tax planning services cover a broad range of topics or areas. Examples of such services include:

- Advising an entity to structure its tax affairs to achieve investment goals.
- Advising an entity on structuring its ownership of, and income from, separate businesses to minimise its overall taxes.
- Advising an entity on structuring its international operations to minimise its overall taxes.
- Advising on the structuring of transfer pricing arrangements, taking into account tax-related transfer pricing guidelines.
- Advising on the utilisation of losses in a tax-efficient manner.

- Advising an entity on the structuring of its capital distribution strategy in a tax-efficient manner.
- Advising an entity on structuring its compensation strategy for senior executives to optimise the tax benefits.

5380.5 A3 Tax planning services do not include services that are generally referred to as tax compliance or tax preparation, which are services to assist the sustainability assurance client in fulfilling the client's filing, reporting, payment and other obligations under tax laws and regulations. However, if a tax service comprises both tax planning and tax compliance, the portion that relates to tax planning is covered by this section.

5380.5 A4 This section applies regardless of the nature of the sustainability assurance client, including whether it is a public interest entity.

Related Services

5380.6 A1 There might be circumstances where a sustainability assurance practitioner is engaged to provide a related service to a sustainability assurance client that is based on or linked to a tax planning arrangement developed by the client or a third-party provider. In such circumstances, the provisions of this section apply to the underlying tax planning arrangement.

5380.6 A2 Examples of such related services include:

- Assisting the sustainability assurance client in resolving a dispute with the tax authority on the tax planning arrangement.
- Representing the sustainability assurance client in administrative or court proceedings regarding the tax planning arrangement.
- Implementing the tax planning arrangement for the sustainability assurance client.
- Advising the sustainability assurance client on an acquisition where the valuation depends on the tax planning arrangement established by the target.

Compliance with Laws and Regulations

5380.7 A1 This section does not address tax evasion, which is illegal.

Anti-avoidance Laws and Regulations

R5380.8 Where there are laws and regulations, including those that might be referred to as anti-avoidance rules, that limit or prohibit certain tax planning arrangements, a sustainability assurance practitioner shall obtain an understanding of those laws and regulations and advise the sustainability assurance client to comply with them when providing tax planning services.

Non-compliance with Tax Laws and Regulations

5380.8 A1 If, in the course of providing tax planning services, a sustainability assurance practitioner becomes aware of tax evasion or suspected tax evasion, or other non-compliance or suspected non-compliance with tax laws and regulations by a sustainability assurance client, management, those charged with governance or other individuals working for or under the direction of the client, the requirements and application material set out in Section 5360 apply.

Responsibilities of Management and Those Charged with Governance

5380.9 A1 In relation to tax planning, management, with the oversight of those charged with governance, has a number of responsibilities, including:

- Ensuring that the sustainability assurance client's tax affairs are conducted in accordance with the relevant tax laws and regulations.
- Maintaining all the books and records and implementing the systems of internal control necessary to enable the sustainability assurance client to fulfil its tax compliance obligations.
- Making available all the facts and other relevant information needed to enable the sustainability assurance practitioner to perform the tax planning service.
- Engaging experts to advise on relevant aspects of the tax planning arrangement.
- Deciding whether to accept and implement the sustainability assurance practitioner's recommendation or advice on a tax planning arrangement.
- Authorising the submission of the sustainability assurance client's tax returns and ensuring that any matters raised by the relevant tax authorities are addressed in a timely manner.
- Making such disclosures to the relevant tax authorities as might be required by tax laws and regulations or as might be necessary to support a tax position, including details of any tax planning arrangements.
- Making appropriate disclosure of tax strategy, policies or other tax-related matters in the financial statements, sustainability disclosures or other relevant public documents in accordance with applicable reporting requirements.
- Ensuring that the sustainability assurance client's tax planning arrangements are consistent with any publicly disclosed tax strategy or policies.

Responsibilities of All Sustainability Assurance Practitioners

R5380.10 As part of providing a tax planning service, a sustainability assurance practitioner shall obtain an understanding of the nature of the engagement, including:

(a) Knowledge and understanding of the sustainability assurance client, its owners, management and those charged with governance, and its business activities;

(b) The purpose, facts and circumstances of the tax planning arrangement; and

(c) The relevant tax laws and regulations.

5380.10 A1 The requirements and application material in Section 5320 apply with respect to client and engagement acceptance.

[Paragraph 5380.10 A2 is intentionally left blank]

5380.11 A1 A sustainability assurance practitioner is expected to apply professional competence and due care in accordance with Subsection 5113 when providing a tax planning service. The practitioner is also expected to have an inquiring mind and exercise professional judgement in accordance with Section 5120 when considering the specific facts and circumstances relating to the tax planning service.

Basis for Recommending or otherwise Advising on a Tax Planning Arrangement

R5380.12 A sustainability assurance practitioner shall recommend or otherwise advise on a tax planning arrangement to a sustainability assurance client only if the practitioner has determined that there is a credible basis in laws and regulations for the arrangement.

5380.12 A1 The determination of whether there is a credible basis involves the exercise of professional judgement by the sustainability assurance practitioner. This determination

will vary from jurisdiction to jurisdiction based on the relevant laws and regulations at the time.

5380.12 A2 If the sustainability assurance practitioner determines that the tax planning arrangement does not have a credible basis in laws and regulations, paragraph R5380.12 does not preclude the practitioner from explaining to the sustainability assurance client the practitioner's rationale for the determination or advising on an alternative arrangement that has a credible basis.

5380.12 A3 Paragraph R5380.12 also does not preclude the sustainability assurance practitioner from being engaged by the sustainability assurance client, or otherwise assisting the client, to remediate or rectify a tax planning arrangement which lacks a credible basis. Such type of service is a related service as described in paragraphs 5380.6 A1 and A2. This includes, for example:

- Assisting the client to restructure a tax planning arrangement to achieve a credible basis as part of a tax dispute resolution service.
- Agreeing with the client appropriate changes to the tax planning arrangement to achieve a credible basis as part of representing the client in administrative or court proceedings.

5380.12 A4 Examples of actions that a sustainability assurance practitioner might take to determine that there is a credible basis in relation to a particular tax planning arrangement include:

- Reviewing the relevant facts and circumstances, including the economic purpose and substance of the arrangement.
- Assessing the reasonableness of any assumptions.
- Reviewing the relevant tax legislation.
- Reviewing legislative proceedings that discuss the intent of the relevant tax legislation.
- Reviewing relevant literature such as court decisions, professional or industry journals, and tax authority rulings or guidance.
- Considering whether the basis used for the proposed arrangement is an established practice that has not been challenged by the relevant tax authorities.
- Considering how likely the proposed arrangement would be accepted by the relevant tax authorities if all the relevant facts and circumstances were disclosed.
- Consulting with legal counsel or other experts within or outside the sustainability assurance practitioner's firm regarding what a reasonable interpretation of the relevant laws and regulations might be.
- Consulting with the relevant tax authorities, where applicable.

R5380.13 If, during the course of the engagement, the sustainability assurance practitioner becomes aware of circumstances that might impact the previous determination of the credible basis, the practitioner shall re-assess the validity of that basis.

Consideration of the Overall Tax Planning Recommendation or Advice

R5380.14 In addition to determining that there is a credible basis for the tax planning arrangement, the sustainability assurance practitioner shall exercise professional judgement and consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.

5380.14 A1 The reputational and commercial consequences might relate to business implications to the sustainability assurance client or implications to the reputation of the client or a relevant profession or a group of practitioners to which the sustainability assurance practitioner might belong from a prolonged dispute with the relevant tax or other authorities. The implications to the client might involve adverse publicity, costs, fines or penalties, loss of management time over a significant period, and potential adverse consequences for the client's business.

5380.14 A2 An awareness of the wider economic consequences might take into account the sustainability assurance practitioner's general understanding of the current economic environment and the impact of the tax planning arrangement on the tax base of the jurisdiction, or the relative impacts of the arrangement on the tax bases of multiple jurisdictions, where the sustainability assurance client operates.

R5380.15 If, having considered the matters set out in paragraph R5380.14, the sustainability assurance practitioner decides not to recommend or otherwise advise on a tax planning arrangement that the sustainability assurance client would like to pursue, the practitioner shall inform the client of this and explain the basis for the practitioner's conclusion.

Tax Planning Arrangements Involving Multiple Jurisdictions

5380.16 A1 There might be circumstances where a sustainability assurance practitioner becomes aware that a sustainability assurance client is obtaining a tax benefit from accounting for the same transaction in more than one jurisdiction, especially if there is no tax treaty between the jurisdictions. In such circumstances, while the client might be in compliance with the tax laws and regulations of each jurisdiction, the practitioner might advise the client to disclose to the relevant tax authorities the particular facts and circumstances and the tax benefits derived from the transaction in the different jurisdictions.

5380.16 A2 Relevant factors the sustainability assurance practitioner might consider in determining whether to advise the sustainability assurance client to make such disclosure include:

- The significance of the tax benefits in the relevant jurisdictions.
- Stakeholders' perceptions of the client if the facts and circumstances were known to the stakeholders.
- Whether there are globally or nationally accepted principles or practices regarding disclosure of similar situations to the tax authorities in the relevant jurisdictions.

Circumstances of Uncertainty

5380.17 A1 In determining whether there is a credible basis for the tax planning arrangement, a sustainability assurance practitioner might encounter circumstances giving rise to uncertainty as to whether a proposed tax planning arrangement will be in compliance with the relevant tax laws and regulations. Such uncertainty makes it more challenging for the practitioner to determine that there is a credible basis in laws and regulations for the tax planning arrangement and might, therefore, create threats to compliance with the fundamental principles.

5380.17 A2 Circumstances that might give rise to uncertainty include:

- Difficulty in establishing an adequate factual basis.
- Difficulty in establishing an adequate basis of assumptions.
- Lack of clarity in the tax laws and regulations and their interpretation, including:
  - Gaps in the tax laws and regulations.

- Challenges to previous court rulings.
- Conflicting tax laws and regulations in different jurisdictions in circumstances involving cross-border transactions.
- Innovative business models not addressed by the current tax laws and regulations.
- Recent court or tax authority rulings or positions that cast doubt on similar tax planning arrangements.
- Complexity in interpreting or applying the tax laws and regulations from a technical or legal point of view.
- Lack of a legal precedent, ruling or position.

- Lack of clarity regarding the economic purpose and substance of the tax planning arrangement.
- Lack of clarity about the ultimate beneficiaries of the tax planning arrangement.

R5380.18 Where there is uncertainty as to whether a tax planning arrangement is or will be in compliance with the relevant tax laws and regulations, a sustainability assurance practitioner shall discuss the uncertainty with the sustainability assurance client.

5380.18 A1 The discussion serves a number of purposes, including:

- Explaining the sustainability assurance practitioner's assessment about how likely the relevant tax authorities are to have a view that supports the tax planning arrangement where there is a lack of clarity in the interpretation of the relevant tax laws and regulations.
- Considering any assumptions made when establishing the basis on which the tax planning advice is provided.
- Obtaining any additional information from the sustainability assurance client that might reduce the uncertainty.
- Discussing any reputational, commercial or wider economic consequences in pursuing the tax planning arrangement.
- Discussing potential courses of action to mitigate the possibility of adverse consequences for the sustainability assurance client, including consideration of disclosure to the relevant tax authorities.

Potential Threats Arising from Providing a Tax Planning Service

5380.19 A1 Providing a tax planning service to a sustainability assurance client might create a self-interest, self-review, advocacy or intimidation threat. For example:

- A self-review threat might be created when a sustainability assurance practitioner has recently provided a valuation service to a client for tax purposes, the output of which is then relied upon or is a key input to a tax planning service for the client.
- A self-interest threat might be created when a sustainability assurance practitioner has a direct financial interest in a client and the assurance practitioner is involved in designing a tax planning arrangement that has an impact on the client's financial situation.
- Self-interest and advocacy threats might be created when a sustainability assurance practitioner actively promotes a particular tax position a client should adopt.

- A self-interest threat might be created when a sustainability assurance practitioner is in possession of confidential information obtained from the practitioner's involvement in formulating or drafting tax policy, laws or regulations for a government agency and the confidential information would be valuable to the practitioner in advising other clients on their tax planning arrangements.
- A self-interest threat might be created when a sustainability assurance practitioner accepts a fee that might be perceived to be excessive for an engagement to develop a tax planning arrangement for which the interpretation of the relevant tax laws and regulations is uncertain or unclear.
- Self-interest and advocacy threats might be created when a sustainability assurance practitioner advocates a client's position in a tax planning arrangement which the practitioner previously advised on before a tax authority when there are indications that the arrangement might not have a credible basis in laws and regulations.
- Self-interest and intimidation threats might be created when a sustainability assurance practitioner provides services to a client who exerts significant influence over the design of a particular tax arrangement, in a way that might influence the practitioner's determination that there is a credible basis for the arrangement in laws and regulations.
- Self-interest and intimidation threats might be created when a sustainability assurance practitioner is threatened with dismissal from the engagement or the practitioner's firm concerning the position a client is insisting on pursuing regarding a tax planning arrangement.

5380.19 A2 Factors that are relevant in evaluating the level of such threats include:

- The degree of transparency of the sustainability assurance client, including, where applicable, the identity of the ultimate beneficiaries.
- Whether the tax planning arrangement has a clear economic purpose and substance based on the underlying business transaction or circumstances.
- The nature and complexity of the underlying business transaction or circumstances.
- The complexity or clarity of the relevant tax laws and regulations.
- Whether the sustainability assurance practitioner knows, or has reason to believe, that the tax planning arrangement would be contrary to the intent of the relevant tax legislation.
- The number of jurisdictions involved and the nature of their tax regimes.
- The extent of the sustainability assurance practitioner's expertise in the relevant tax areas.
- The significance of the potential tax savings.
- The nature and amount of the fee for the tax planning service.
- The extent to which the sustainability assurance practitioner is aware that the tax planning arrangement reflects an established practice that has not been challenged by the relevant tax authorities.
- Whether there is pressure being exerted by the sustainability assurance client or another party on the sustainability assurance practitioner.
- The degree of urgency in implementing the tax planning arrangement.

- Whether it is a tax planning arrangement used for multiple sustainability assurance clients with little modification for the client's specific circumstances.
- The known previous behaviour or reputation of the sustainability assurance client, including its organisational culture.

5380.19 A3 Examples of actions that might eliminate such threats include:

- Referring the sustainability assurance client to an expert outside the sustainability assurance practitioner's firm who has the necessary expertise to advise the client on the tax planning arrangement.
- Advising the sustainability assurance client to structure the tax planning arrangement so that it is consistent with an existing interpretation or ruling issued by the relevant tax authorities.
- Obtaining an advance ruling from the relevant tax or other authorities, where possible.
- Advising the sustainability assurance client not to pursue the tax planning arrangement.

5380.19 A4 Examples of actions that might be safeguards to address such threats include:

- Establishing the identity of the ultimate beneficiaries.
- Advising the sustainability assurance client to structure the tax planning arrangement so that it better aligns with the underlying economic purpose and substance.
- Advising the sustainability assurance client to structure the tax planning arrangement based on an established practice that is currently not subject to challenge by the relevant tax authorities or is known to have been accepted by the relevant tax authorities.
- Consulting with a legal counsel or other expert within or outside the sustainability assurance practitioner's firm in the relevant tax areas.
- Obtaining an opinion from an appropriately qualified professional (such as legal counsel or a professional accountant) regarding the interpretation of the relevant tax laws and regulations as applied to the particular circumstances.
- Having an appropriate reviewer, who is not otherwise involved in providing the tax planning service, review any work performed or conclusions reached by the sustainability assurance practitioner with respect to the tax planning arrangement.
- Having the sustainability assurance client provide full transparency about the tax planning arrangement to the relevant tax authorities, including the goals, business and legal aspects, and ultimate beneficiaries of the tax planning arrangement.

5380.19 A5 Examples of steps a sustainability assurance practitioner might take to establish the identity of the ultimate beneficiaries include:

- Making inquiries of management and others within the sustainability assurance client.
- Making inquiries of others within or outside the firm who have dealt with the sustainability assurance client, having regard to the principle of confidentiality.
- Reviewing the sustainability assurance client's tax records, financial statements and other relevant corporate records.

- Making inquiries of registrars where the sustainability assurance client or entities within its legal structure are incorporated concerning the relevant shareholders.
- Researching relevant public records.

Communication of Basis of the Tax Planning Recommendation or Advice

R5380.20 A sustainability assurance practitioner shall explain the basis on which the practitioner recommended or otherwise advised on a tax planning arrangement to the sustainability assurance client.

Disagreement with the Sustainability Assurance Client

R5380.21 If the sustainability assurance practitioner disagrees that a tax planning arrangement that a sustainability assurance client would like to pursue has a credible basis, the practitioner shall:

(a) Inform the client of the basis of the practitioner's assessment;

(b) Communicate to the client the potential consequences of pursuing the arrangement; and

(c) Advise the client not to pursue the arrangement.

R5380.22 If the sustainability assurance client decides to pursue the tax planning arrangement despite the sustainability assurance practitioner's advice to the contrary, the practitioner shall advise the client to:

(a) Communicate internally to the appropriate level of management the details of the arrangement and the difference of views;

(b) Consider making full disclosure of the arrangement to the relevant tax authorities; and

(c) Consider communicating the details of the arrangement and the difference of views to the external auditor, if any.

5380.22 A1 As part of communicating the matters set out in paragraphs R5380.21 and R5380.22, a sustainability assurance practitioner might consider it appropriate to raise the relevant matters with those charged with governance of the sustainability assurance client.

R5380.23 In light of the sustainability assurance client's response to the sustainability assurance practitioner's advice, the practitioner shall consider whether there is a need to withdraw from the engagement and the professional relationship.

Tax Planning Products or Arrangements Developed by a Third Party

R5380.24 If a sustainability assurance client engages a sustainability assurance practitioner to advise on a tax planning product or arrangement developed by a third party, the practitioner shall:

(a) Inform the client of any professional or business relationship the sustainability assurance practitioner has with the third-party provider; and

(b) Apply the provisions in this section with respect to the tax planning product or arrangement.

R5380.25 If a sustainability assurance practitioner recommends or refers a sustainability assurance client to a third-party provider of tax planning services, the practitioner shall inform the client of any professional or business relationship the practitioner has with the third-party provider.

5380.25 A1 Where the sustainability assurance practitioner only recommends or refers a sustainability assurance client to a third-party provider of tax planning services, the provisions of this section do not apply.

5380.25 A2 If a sustainability assurance practitioner receives a referral fee or commission from the third-party provider, the provisions in Section 5330 apply.

Documentation

5380.26 A1 When providing a tax planning service, a sustainability assurance practitioner is encouraged to document on a timely basis:

- The purpose, circumstances and substance of the tax planning arrangement.
- The identity of the ultimate beneficiaries.
- The nature of any uncertainties.
- The practitioner's analysis, the courses of action considered, the judgements made, and the conclusions reached in advising the sustainability assurance client on the tax planning arrangement.
- The results of discussions with the sustainability assurance client and other parties.
- The sustainability assurance client's response to the practitioner's advice.
- Any disagreement with the sustainability assurance client.

5380.26 A2 Preparing such documentation assists the sustainability assurance practitioner to:

- Consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.
- Develop the practitioner's analysis of the facts, circumstances, relevant tax laws and regulations and any assumptions made or changed.
- Record the basis of the professional judgements at the time they were made or changed.
- Support the position if the tax planning arrangement is challenged by the relevant tax authorities.
- Demonstrate that the practitioner has complied with the provisions in this section.

SECTION 5390 USING THE WORK OF AN EXTERNAL EXPERT

Introduction

5390.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.

5390.2 A sustainability assurance practitioner might use the work of an external expert in the performance of a professional service. Using the work of such an external expert might create threats to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional competence and due care.

5390.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to using the work of an external expert. Other professional standards might address the competence, capabilities and objectivity of an external expert as factors that significantly affect whether the work of the external expert will be adequate for the sustainability assurance practitioner's purposes.

Requirements and Application Material

General

5390.4 A1 A self-interest threat to compliance with the principles of integrity and professional competence and due care is created if a sustainability assurance practitioner performs a professional service for which the practitioner has insufficient expertise.

5390.4 A2 An action that might be a safeguard to address such a threat is to use the work of an external expert for the professional service who has the competence, capabilities and objectivity to deliver the work needed for such service.

5390.4 A3 An external expert might be used to undertake specific work to support a professional service provided by a sustainability assurance practitioner. Such work can be in a field that is well-established or emerging. Examples of such work include:

- The valuation of assets such as complex financial instruments, land and buildings, plant and machinery, jewellery, works of art, antiques, intangible assets, assets acquired in business combinations, and assets that may have been impaired.
- The valuation of liabilities such as those assumed in business combinations, those from actual or threatened litigation, environmental liabilities, complex financial instruments, site clean-up liabilities, and those associated with insurance contracts or employee benefit plans.
- The calculation of greenhouse gas emissions.
- The measurement of pollutants emitted to air, water and soil.
- The assessment of forward-looking information about the decarbonisation plans of an entity.
- The assessment of the application of offsetting mechanisms for an entity, such as for carbon or biodiversity.
- The valuation of products and materials designed along principles for a sustainable economy.
- The estimation of oil and gas reserves.
- The interpretation of contracts, laws and regulations, including tax and labour laws and regulations.

- The assessment and evaluation of IT systems, including those related to cybersecurity.
- The accounting for specific matters such as financial instruments or carbon credits.
- Consideration of the methodologies or classification systems used to measure a product's impact on the environment.
- Assessment or measurement of impacts of activities, products or services on the environment, economy and social or cultural conditions.

5390.4 A4 This section does not apply to:

(a) The use of the work of an expert employed or engaged by the sustainability assurance client to assist the client in preparing the financial or non-financial information. Such work is deemed to be information provided by management;

(b) The use of the work of individuals or organisations that are engaged by the sustainability assurance practitioner and are under the practitioner's direction, supervision and review, for example, subcontractors; and

(c) The use of information provided by individuals or organisations that are external information sources for general use. Examples of those information sources include those that provide industry or other benchmarking data or studies, such as information about employment statistics including hours worked and compensation per week by geographical area, real estate prices, carbon emissions by vehicle type, mortality tables, or other datasets for general use.

5390.4 A5 This section does not address a sustainability assurance practitioner's evaluation of the adequacy of an external expert's work for purposes of a professional service undertaken by the practitioner, and the implications for the engagement if the practitioner determines that such work is not adequate. Such implications might be addressed in other professional standards.

Agreeing the Terms of Engagement with an External Expert

All Professional Services

R5390.5 If the sustainability assurance practitioner has determined to use an external expert for a professional service and has identified an external expert for such purpose, the practitioner shall, to the extent not otherwise addressed by law, regulation or other professional standards, agree the terms of engagement with the external expert, including:

(a) The nature, scope and objectives of the work to be performed by the external expert; and

(b) In the context of sustainability or other assurance engagements for the same sustainability assurance client:

(i) The provision of information in writing for purposes of assisting the practitioner's evaluation of the external expert's objectivity; and

(ii) A commitment from the external expert to communicate any changes to the information provided during the period covered by the sustainability assurance or other assurance report for the same sustainability assurance client through to the issuance of that report.

5390.5 A1 In agreeing the terms of engagement, matters that the sustainability assurance practitioner might discuss with the external expert include:

- The intended use and timing of the external expert's work.
- The external expert's planned approach to the work.
- Expectations regarding:
  - The confidentiality of the external expert's work and the inputs to that work.
  - The information to be provided by the external expert and the nature of such information.
  - The content and format of the external expert's completed work, including any assumptions made and limitations to that work.
  - The fees for the external expert's work.
  - The external expert's communication of any non-compliance or suspected non-compliance with laws and regulations committed by the sustainability assurance client, or by those charged with governance, management or others working for or under the direction of the client, of which the external expert becomes aware when performing the work.

5390.5 A2 A self-interest, self-review, familiarity or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if a sustainability assurance practitioner uses an external expert who does not have the necessary competence, capabilities or objectivity to deliver the work needed for the particular professional service.

Evaluating the External Expert's Competence, Capabilities, and Objectivity

All Professional Services

R5390.6 The sustainability assurance practitioner shall evaluate whether the external expert has the necessary competence for the practitioner's purpose.

5390.6 A1 Competence relates to the nature and level of expertise of the external expert.

5390.6 A2 Factors that are relevant in evaluating whether the external expert has the necessary competence include:

- Whether the external expert's credentials, education, training, experience and reputation are relevant to, or consistent with, the nature of the work to be performed.
- Whether the external expert belongs to a relevant professional body or is subject to oversight by a regulatory body or other authority, and, if so, whether the external expert is in good standing.
- Whether any disciplinary actions have been published by a regulatory body or other authority relating to the external expert's competence.
- Whether the external expert's work is subject to legal and regulatory requirements or professional standards issued by a recognised body, or follows generally accepted principles or practices, in the external expert's field or area of expertise.
- Whether the external expert can explain their work, including the inputs, assumptions and methodologies used.
- Whether the external expert has a history of performing similar work.

R5390.7 The sustainability assurance practitioner shall evaluate whether the external expert has the necessary capabilities for the practitioner's purpose.

5390.7A1 Capabilities relates to the ability of the external expert to exercise their competence in the circumstances of the professional service.

5390.7 A2 Factors that are relevant in evaluating whether the external expert has the necessary capabilities include:

- The resources available to the external expert.
- Whether the external expert has sufficient time to perform the work.

R5390.8 The sustainability assurance practitioner shall evaluate whether the external expert has the necessary objectivity for the practitioner's purpose.

5390.8 A1 Objectivity relates to the possible effects that bias, conflict of interest, or the undue influence of, or undue reliance on, others might have on the professional or business judgement of the external expert.

5390.8 A2 Factors that are relevant in identifying threats to the objectivity of the external expert for the period during which the external expert is performing the work include:

- Whether the external expert or their employing organisation has an actual or potential conflict of interest in relation to the work the external expert is performing at the entity.
- Whether the sustainability assurance practitioner is aware of any potential bias that might affect the external expert's work.
- Whether the external expert is charging a contingent fee, and if so, the basis for such fee.
- Whether the external expert will evaluate or rely on any previous judgements made or activities performed by the external expert or their employing organisation in relation to the subject matter of the external expert's work.

5390.8 A3 The external expert's employing organisation is the entity that directly employs the expert, regardless of the legal form of the employment, and does not extend to other entities that might control, or are otherwise related to, the employing organisation.

5390.8 A4 Examples of previous judgements made or activities performed by an external expert or their employing organisation that might create a self-review threat to the external expert's objectivity include:

- Having advised the entity on the matter for which the external expert is performing the work.
- Having produced data or other information, or having designed, developed, implemented, operated, maintained, monitored, updated or upgraded an IT system, for the entity which is then used by the external expert in performing the work or is the subject of that work.

5390.8 A5 Factors that are relevant in evaluating the level of such threats to the external expert's objectivity include:

- The existence of conditions, policies and procedures established by the external expert's profession, legislation, regulation, or the external expert's employing organisation, including whether the external expert is subject to ethics standards issued by a body responsible for issuing such standards in the external expert's field of expertise.
- The nature and scope of the external expert's work.

- The existence and adequacy of any quality management system employed by the external expert.

5390.8 A6 Examples of actions that might be safeguards to address threats to an external expert's objectivity include:

- Consulting with qualified personnel, or a professional outside the sustainability assurance practitioner's firm, who have the necessary expertise to evaluate the external expert's work for the intended purpose.
- Requesting the external expert to take steps to address a conflict of interest, for example, implementing measures to segregate the work from such conflict of interest.
- Restructuring or reassigning the part of the external expert's work giving rise to the threat to another external expert.

Sources of Information

5390.9 A1 Information about the external expert's competence, capabilities and objectivity might be obtained from various sources, including:

- Personal association or experience with previous work undertaken by the external expert.
- Enquiry of others within or outside the sustainability assurance practitioner's firm who are familiar with the external expert's work.
- Discussion with the external expert about their background, including their field of expertise and business activities.
- Enquiry of the external expert's professional body or industry association.
- Articles, papers or books written by the external expert and published by a recognised publisher or in a recognised journal or other medium.
- Published records, such as legal proceedings involving the external expert.
- Enquiry of the sustainability assurance client and, if different, the entity at which the external expert is performing the work regarding any interests and relationships between the external expert and the client or the entity.
- The system of quality management of the sustainability assurance practitioner's firm.

Additional Considerations when Evaluating Competence, Capabilities and Objectivity

5390.10 A1 Evaluating whether an external expert has the necessary competence, capabilities and objectivity for the sustainability assurance practitioner's purpose involves exercising professional judgement and using the reasonable and informed third party test.

5390.10 A2 A sustainability assurance practitioner might face pressure to breach the fundamental principles if the practitioner encounters difficulties in concluding, or is unable to conclude, that the external expert has the necessary competence, capabilities and objectivity for the practitioner's purpose when the external expert has already performed a significant portion of their work. In such circumstances, Section 270 is relevant in considering how to address such pressure.

Additional Objectivity Considerations for Sustainability or Other Assurance Engagements for the Same Sustainability Assurance Client

5390.11 A1 Stakeholders have heightened expectations regarding the objectivity of an external expert whose work is used in a sustainability or other assurance engagement for the same sustainability assurance client. Therefore, paragraphs R5390.12 to R5390.19 set out further actions in evaluating the objectivity of an external expert in such engagement pursuant to paragraph R5390.8.

Sustainability or Other Assurance Engagements for the Same Sustainability Assurance Client that is Not a Public Interest Entity

R5390.12 The sustainability assurance practitioner shall request the external expert to provide in writing:

(A) To the best of their knowledge and belief;

(B) In relation to the entity at which the external expert is performing the work; and

(C) From the beginning of the period covered by the assurance report until the completion of the external expert's work,

information about:

(a) Any direct financial interest or material indirect financial interest in the entity held by the external expert, their immediate family, or the external expert's employing organisation;

(b) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing organisation might have in relation to the work the external expert is performing at the entity; and

(c) Any previous or current engagements between the external expert or their employing organisation and the entity.

R5390.13 The sustainability assurance practitioner shall also consider requesting the external expert to provide in writing:

(a) To the best of their knowledge and belief; and

(b) From the beginning of the period covered by the assurance report until the completion of the external expert's work,

information about any additional interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing organisation and the entity at which the external expert is performing the work.

5390.13 A1 In addition to the interests, relationships or circumstances in paragraph R5390.13, paragraph R5390.14 sets out other interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing organisation and the entity at which the external expert is performing the work.

5390.13 A2 Factors that are relevant in determining whether to request information about any additional interests, relationships or circumstances from the external expert include:

- The scale of the external expert's practice.
- The range of services offered by the external expert.
- How long the external expert has been practicing.
- The complexity of the external expert's work.

- The impact of the external expert's work on the sustainability assurance practitioner's engagement.

For example, the larger the external expert's practice, the broader its range of services, or the longer it has been practicing, the greater the possibility that there might be additional interests, relationships or circumstances between the external expert or their employing organisation and the entity.

Sustainability or Other Assurance Engagements for the Same Sustainability Assurance Client that is a Public Interest Entity

R5390.14 The sustainability assurance practitioner shall request the external expert to provide in writing:

(A) To the best of their knowledge and belief;

(B) In relation to the entity at which the external expert is performing the work; and

(C) From the beginning of period covered by the assurance report until the completion of the external expert's work,

information about:

(a) Any direct financial interest or material indirect financial interest in the entity held by the external expert, their immediate family, or the external expert's employing organisation;

(b) Any loan, or guarantee of a loan, made to the entity by the external expert, their immediate family, or the external expert's employing organisation, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing organisation, as applicable, and the entity;

(c) Any loan, or guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing organisation from the entity if it is a bank or similar institution, other than where the loan or guarantee is made under normal lending procedures, terms and conditions;

(d) Any loan, or guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing organisation from the entity if it is not a bank or similar institution, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing organisation, as applicable, and the entity;

(e) Any close business relationship between the external expert, their immediate family, or the external expert's employing organisation and the entity or its management, other than where the financial interest, if any, is immaterial and the business relationship is insignificant to the external expert, their immediate family or the external expert's employing organisation, as applicable, and the entity or its management;

(f) Any previous or current engagements between the external expert or their employing organisation and the entity;

(g) Any fee or contingent fee or dependency on fees or other types of remuneration due to or recently received by the external expert or their employing organisation from the entity;

(h) Any gifts or other benefits accepted by the external expert, their immediate family or the external expert's employing organisation from the entity other than those that are trivial and inconsequential;

(i) Any actual or potential litigation between the external expert or their employing organisation and the entity;

(j) Any position currently or previously held by the external expert as a director, officer or employee of the entity;

(k) Any position currently or previously held by the external expert's immediate family or by management of the external expert's employing organisation as a director or officer of the entity, or an employee in a position to exert significant influence over the preparation of the entity's financial or non-financial information on which the sustainability assurance practitioner will express an opinion or conclusion, or the records underlying such information.

(l) Any previous public statements by the external expert or their employing organisation which advocated for the entity;

(m) The nature and extent of any interests and relationships between the controlling owners, if any, of the external expert's employing organisation and the entity and

(n) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing organisation might have in relation to the work the external expert is performing at the entity; and

with respect to the length of the relationship of the external expert and their employing organisation with the entity:

(o) How long the association has been.

Considerations Relating to an External Expert's Team and Where the Client is Not the Entity at Which the External Expert is Performing the Work

All sustainability or other assurance engagements for the same sustainability assurance client

R5390.15 Where the external expert uses a team to carry out the work, the sustainability assurance practitioner shall request the external expert to have all members of the external expert's team provide in writing the information set out in paragraphs R5390.12 to R5390.14, as applicable, in relation to the entity at which the external expert is performing the work.

R5390.16 Where the sustainability assurance practitioner's client is not the entity at which the external expert is performing the work, the sustainability assurance practitioner shall also request the external expert to provide in writing:

(A) To the best of their knowledge and belief;

(B) In relation to the client; and

(C) From the beginning of the period covered by the assurance report until the completion of the external expert's work,

information about:

(a) Any direct financial interest or material indirect financial interest in the sustainability assurance client held by the external expert, their immediate family, or the external expert's employing organisation;

(b) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing organisation might have with the sustainability assurance client; and

(c) Any previous or current engagements between the external expert or their employing organisation and the client.

R5390.17 The sustainability assurance practitioner shall also consider requesting the external expert to provide in writing:

(a) To the best of their knowledge and belief; and

(b) From the beginning of the period covered by the assurance report until the completion of the external expert's work,

information about any additional interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing organisation and the client.

5390.17 A1 In addition to the interests, relationships or circumstances in paragraph R5390.17, paragraph R5390.14 sets out other interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing organisation and the client.

5390.17 A2 Factors that are relevant in determining whether to request information about any additional interests, relationships or circumstances from the external expert include:

- The scale of the external expert's practice.
- The range of services offered by the external expert.
- How long the external expert has been practicing.
- Whether the client is a public interest entity.
- The nature of the relationship between the client and the entity at which the external expert is performing the work.
- The scale and complexity of the client's operations.
- The complexity of the external expert's work.
- The impact of the external expert's work on the sustainability assurance practitioner's engagement.

For example, the larger the external expert's practice, the broader its range of services, or the longer it has been practicing, the greater the possibility that there might be additional interests, relationships or circumstances between the external expert or their employing organisation and the entity.

5390.17 A3 Information about interests, relationships or circumstances between the external expert or their employing organisation and the sustainability assurance client might be obtained from enquiry of the client, if the circumstances of the engagement permit disclosure of the use of the external expert to the client.

Potential Threats to the External Expert's Objectivity

5390.18 A1 Self-interest, familiarity or intimidation threats to the external expert's objectivity might be created by the interests, relationships or circumstances disclosed pursuant to paragraphs R5390.12 to R5390.17, as applicable.

5390.18 A2 Factors that are relevant in evaluating the level of such threats to the external expert's objectivity include, in addition to those set out in paragraph 5390.8 A5:

- Whether the financial interest is direct or indirect, and whether such financial interest is material to the external expert, their immediate family, or the external expert's employing organisation, as applicable.
- Whether the financial interest allows the external expert, their immediate family, or the external expert's employing organisation, as applicable, to control or significantly influence the entity at which the external expert is performing the work.
- The materiality or significance of the close business relationship between the external expert, their immediate family or the external expert's employing organisation, as applicable, and the entity or its management.
- The significance of any fees due to or recently received by the external expert or their employing organisation from the entity.
- The role of the individual within the external expert's team.
- The nature and value of the gifts or other benefits to the external expert, their immediate family or the external expert's employing organisation.
- The materiality or significance of the litigation and whether the litigation relates to prior work performed by the external expert at the entity.
- The length of time since the external expert left the entity as a director, officer or employee of the entity.
- The position in the entity held by the external expert's immediate family or the management of the external expert's employing organisation.
- The nature of any advocacy for the entity if the external expert or their employing organisation made any previous statement advocating for the entity.

5390.18 A3 Examples of actions that might eliminate the threats to the external expert's objectivity include requesting the external expert to:

- End the close business relationship.
- Remove the individual concerned from the external expert's team.
- Decline the gifts or other benefits offered by the entity.

5390.18 A4 Examples of actions that might be safeguards to address the threats to the external expert's objectivity include, in addition to those set out in paragraph 5390.8 A6, requesting the external expert to:

- Dispose of enough of the financial interest so that the remaining interest is no longer material.
- Reduce the significance of the close business relationship.
- Structure the responsibilities of the individual concerned so that they do not deal with matters that are within the responsibility of the immediate family member who is serving as a director or officer of the entity, or an employee in a position to exert significant influence over the preparation of the entity's financial or non-financial information on which the sustainability assurance practitioner will express an opinion or conclusion, or the records underlying such information.

- Returning the gifts or other benefits to the entity as soon as possible after they were accepted.

Consideration of New Information or Changes in Facts or Circumstances

All Professional Services

R5390.19 The sustainability assurance practitioner shall re-evaluate whether the external expert has the necessary competence, capabilities and objectivity for the practitioner's purpose when new information or changes in facts and circumstances arise.

R5390.20 The sustainability assurance practitioner shall re-evaluate whether the external expert has the necessary objectivity for the practitioner's purpose when there are any changes communicated pursuant to paragraph R5390.5(b)(ii) that might arise during the period covered by the assurance report through to the issuance of that report.

Concluding on the External Expert's Competence, Capabilities and Objectivity

All Professional Services

R5390.21 The sustainability assurance practitioner shall not use the work of the external expert if the practitioner:

(a) Is unable to determine whether the external expert has the necessary competence or capabilities, or is objective;

(b) Determines that the external expert does not have the necessary competence, or capabilities for the practitioner's purpose; or

(c) Determines that there are threats to the external expert's objectivity that cannot be eliminated or reduced to an acceptable level.

5390.21 A1 Circumstances in which a sustainability assurance practitioner would be unable to determine whether the external expert has the necessary competence or capabilities, or is objective, include where:

- The external expert is unable to provide any of the information requested in paragraphs R5390.12 to R5390.17 because of a confidentiality restriction in law or regulation.
- In relation to specific information requested in paragraphs R5390.12 to R5390.17 concerning the external expert's immediate family member or employing organisation, the external expert is unable to obtain their consent to such disclosure.

390.21 A2 If a sustainability assurance practitioner uses the work of such external expert, this creates threats to the practitioner's compliance with the principles of integrity, objectivity and professional competence and due care that cannot be eliminated or reduced to an acceptable level by the application of safeguards.

Potential Threats Arising from Using the Work of an External Expert

All Professional Services

5390.22 A1 Threats to compliance with the fundamental principles might still be created from using the work of an external expert even if a sustainability assurance practitioner has satisfactorily concluded that the external expert has the necessary competence, capabilities and objectivity for the practitioner's purpose.

Identifying Threats

5390.23 A1 Examples of facts and circumstances that might create threats to a sustainability assurance practitioner's compliance with the fundamental principles when using an external expert's work include:

(a) Self-interest threats

- A sustainability assurance practitioner has insufficient expertise to understand and explain the external expert's conclusions and findings.
- A sustainability assurance practitioner has undue influence from, or undue reliance on, the external expert or multiple external experts when providing a professional service.
- A sustainability assurance practitioner has insufficient time or resources to evaluate the external expert's work.

(b) Self-review threats

- A sustainability assurance practitioner uses the work of an external expert who relies on previous judgements made by the practitioner and provided to the external expert for the purposes of their work.

(c) Advocacy threats

- A sustainability assurance practitioner promotes the use of an external expert who has known bias towards conclusions potentially advantaging or disadvantaging the sustainability assurance client.

(d) Familiarity threats

- A sustainability assurance practitioner has a close personal relationship with the external expert.

(e) Intimidation threats

- A sustainability assurance practitioner feels pressure to defer to the external expert's opinion due to the external expert's perceived authority.
- A sustainability assurance practitioner feels pressure to use the work of a particular external expert in order to meet internal or external targets and expectations.

Evaluating Threats

5390.24 A1 Factors that are relevant in evaluating the level of such threats include:

- The scope and purpose of the external expert's work.
- The impact of the external expert's work on the sustainability assurance practitioner's engagement.
- The nature of the professional service for which the external expert's work is intended to be used.
- The sustainability assurance practitioner's oversight relating to the use of the external expert and the external expert's work.
- The appropriateness of, and transparency over, the data, assumptions and other inputs and methods used by the external expert.

- The sustainability assurance practitioner's ability to understand and explain the external expert's work and its appropriateness for the intended purpose.
- Whether the external expert's work is subject to technical performance standards or other professional or industry generally accepted practices, or law or regulation.
- Whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.
- The consistency of the external expert's work, including the external expert's conclusions or findings, with other information.
- The availability of other evidence, including peer-reviewed academic research, to support the external expert's approach.
- Whether there is pressure being exerted by the sustainability assurance practitioner's firm to accept the external expert's conclusions or findings due to the time or cost spent by the external expert in performing the work.

Addressing Threats

5390.25 A1 An example of an action that might eliminate a familiarity threat is identifying a different external expert to use.

5390.25 A2 Examples of actions that might be safeguards to address threats include:

- Consulting with qualified personnel, or a professional outside the sustainability assurance practitioner's firm, who have the necessary expertise to evaluate the external expert's work, obtaining additional input, or challenging the appropriateness of the external expert's work for the intended purpose.
- Using another external expert to reperform the external expert's work.
- Agreeing with the sustainability assurance client additional time or resources to complete the engagement.

Other Matters

External Experts in Emerging Fields or Areas

5390.26 A1 Expertise in emerging fields or areas might evolve depending on how laws, regulations and generally accepted practices develop. Emerging fields might also involve multiple areas of expertise. There might therefore be limited availability of external experts in emerging fields or areas.

5390.26 A2 Information relating to some of the factors relevant to evaluating the competence of an external expert in paragraph 5390.6 A2 might not be available in an emerging field or area. For example, there might not be public recognition of the external expert, professional standards might not have been developed, or professional bodies might not have been established in the emerging field. In such circumstances, a factor that might assist the sustainability assurance practitioner in evaluating an external expert's competence is the external expert's experience in a similar field to the emerging field, or in an established field, that provides a reasonable basis for the external expert's work in the emerging field.

Communicating with Management and Those Charged with Governance When Using the Work of an External Expert

5390.27 A1 Where appropriate, the sustainability assurance practitioner is encouraged to communicate with management and those charged with governance:

- The purpose of using an external expert and the scope of the external expert's work.
- The respective roles and responsibilities of the practitioner and the external expert in the performance of the professional service.
- Any threats to the practitioner's compliance with the fundamental principles created by using the external expert's work and how they have been addressed.

Documentation

R5390.28 The sustainability assurance practitioner shall obtain the information set out in paragraphs R5390.12 to R5390.17, as applicable, in writing from the external expert.

5390.29 A1 The sustainability assurance practitioner is encouraged to document:

- The steps taken by the practitioner to evaluate the external expert's competence, capabilities and objectivity, and the resulting conclusions.
- Any significant threats identified by the practitioner in using the external expert's work and the actions taken to address the threats.
- The results of any significant discussions with the external expert.

SECTION 5400 APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

Introduction

General

5400.1 It is in the public interest and required by the Code that sustainability assurance practitioners be independent when performing sustainability assurance engagements.

[Paragraph 5400.2 is intentionally left blank]

5400.3 In the *International Independence Standards (New Zealand)* in this Part, the term "sustainability assurance practitioner" refers to individuals conducting sustainability assurance engagements or, as applicable, their firms.

5400.3a The *International Independence Standards (New Zealand)* in this Part apply to both reasonable assurance and limited assurance sustainability assurance engagements. In this Part, references are made to a firm expressing an opinion on the sustainability information in the context of a reasonable assurance sustainability assurance engagement. In the context of a limited assurance engagement, those references mean a firm expressing a conclusion on the sustainability information.

Scope of the International Independence Standards (New Zealand) in Part 5

5400.3b The *International Independence Standards (New Zealand)* in this Part only apply to a sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion:

(a) Is reported in accordance with a general purpose framework; and

(b) Is

(i) Required to be provided in accordance with law or regulation; or

(ii) Publicly disclosed to support decision-making by investors or other users.

5400.3c Law or regulation might also require the application of the *International Independence Standards (New Zealand)* in Part 5 to sustainability assurance engagements other than those described in paragraph 5400.3b.

5400.3d An assurance engagement might be either an attestation engagement or a direct engagement. The *International Independence Standards (New Zealand)* in this Part cover only sustainability assurance engagements that are attestation engagements.

5400.3e Part 4B of the Code sets out *International Independence Standards (New Zealand)* for other sustainability assurance engagements that are not within the scope of the *International Independence Standards (New Zealand)* in this Part. These include, for example:

- A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported solely in accordance with:
  - A framework designed to meet the information needs of specified users; or
  - Entity-developed criteria.
- A sustainability assurance engagement for which the sustainability assurance report is a restricted use and distribution report.

Quality Management

5400.3f Quality management within firms that perform sustainability assurance engagements is an integral part of high-quality sustainability assurance engagements. Sustainability assurance standards are based on an expectation that the sustainability assurance practitioner has a system of quality management designed, implemented and operated in accordance with applicable quality management standards. For example, ISSA (NZ) 5000 requires compliance with Professional and Ethical Standard 3 or professional requirements, or requirements in law or regulation, that an appropriate authority has determined to be at least as demanding as Professional and Ethical Standard 3.

5400.4 Legal, regulatory or professional requirements that deal with the firm's responsibilities to design, implement, and operate a system of quality management might require the firm to address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject. The allocation of responsibilities within a firm will depend on its size, structure and organisation. Many of the provisions of the *International Independence Standards (New Zealand)* in this Part do not prescribe the specific responsibilities of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference.

5400.5 Independence is linked to the principles of objectivity and integrity. It comprises:

(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or a sustainability assurance team member's, integrity, objectivity, or professional scepticism has been compromised.

In the *International Independence Standards (New Zealand)* in this Part, references to an individual or firm being "independent" mean that the individual or firm has complied with the provisions of this Part.

5400.6 When performing sustainability assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 5120 applies to independence as it does to the fundamental principles set out in Section 5110. Section 5405 sets out specific requirements and application material applicable in a group sustainability assurance engagement.

5400.7 The *International Independence Standards (New Zealand)* in this Part describe:

(a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;

(b) Potential actions, including safeguards, that might be appropriate to address any such threats; and

(c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

Engagement Team and Sustainability Assurance Team

5400.8 The *International Independence Standards (New Zealand)* in this Part apply to all sustainability assurance team members, including engagement team members.

5400.9 An engagement team for a sustainability assurance engagement includes all leaders and staff in the firm who perform assurance procedures on the engagement, and any other individuals who perform such procedures who are from within or outside the firm's network.

[Paragraph 5400.10 is intentionally left blank]

5400.10a If the firm intends to use the assurance work of another sustainability assurance practitioner and the firm is able to be sufficiently and appropriately involved in the practitioner's work, that practitioner is a member of the engagement team. For example, an individual from a component practitioner who performs assurance procedures on the sustainability information of a component for purposes of a group sustainability assurance engagement is a member of the engagement team for the group sustainability assurance engagement.

5400.11 Sustainability assurance engagements might be performed on a wide range of sustainability matters that require specialised skills and knowledge beyond those possessed by the engagement team. A sustainability assurance engagement might therefore involve experts within, or engaged by, the firm, a network firm, or a component practitioner who assist in the engagement. Depending on the role of the individuals, they might be engagement team or sustainability assurance team members. For example:

- Individuals with expertise in a specialised area of sustainability reporting or assurance who perform assurance procedures are engagement team members. These include, for example, individuals with expertise in the measurement of specific sustainability matters or in analysing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships.
- Individuals within, or engaged by, the firm who have direct influence over the outcome of the sustainability assurance engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are sustainability assurance team members but not engagement team members.

However, individuals who are external experts are neither engagement team nor sustainability assurance team members. [Ref.: Section 5390]

5400.12 If the sustainability assurance engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review are sustainability assurance team members but not engagement team members.

Involvement of Another Practitioner in a Sustainability Assurance Engagement

5400.12a In performing a sustainability assurance engagement, a firm might intend to use the assurance work of another sustainability assurance practitioner but is not able to be sufficiently and appropriately involved in that work. For example:

- The sustainability assurance client might have chosen to engage the other practitioner in relation to certain sustainability information and that other practitioner might already have completed its engagement, or might be unable to

cooperate with the firm because there are restrictions on access to information or people due to law, regulation or other conditions.

- The work might be performed at a value chain component.

5400.12b When the firm intends to use the assurance work of another sustainability assurance practitioner but is not able to be sufficiently and appropriately involved in the work, that other sustainability assurance practitioner is "another practitioner" for the purposes of this Part. The individuals from another practitioner are not members of the engagement team. Section 5406 of this Part sets out specific requirements and application material when a firm intends to use the assurance work of another practitioner.

Public Interest Entities

5400.13 Some of the requirements and application material set out in this Part are applicable only to the sustainability assurance engagements of public interest entities. An entity is a public interest entity in this Part if it has been determined as such for the purposes of the audit of its financial statements in accordance with the relevant provisions in Part 4A.

5400.13a A firm performing the audit of an entity's financial statements might decide to voluntarily treat the entity as a public interest entity. In such circumstances, this does not mean that another firm performing a sustainability assurance engagement for that entity is required to treat that entity as a public interest entity for the purposes of the sustainability assurance engagement.

5400.13b Laws and regulations might also determine an entity to be a public interest entity for the purposes of a sustainability assurance engagement.

[Paragraph 5400.14 is intentionally left blank]

5400.15 Stakeholders have heightened expectations regarding the independence of a firm performing a sustainability assurance engagement for a public interest entity. The purpose of the requirements and application material for public interest entities is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's sustainability information that can be used for their decision-making purposes.

[Paragraph 5400.16 is intentionally left blank]

Firms Performing Both Audit and Sustainability Assurance Engagements

5400.16a Independence standards for audit and review engagements are set out in Part 4A – Independence for Audit and Review Engagements. If a firm performs both a sustainability assurance engagement and an audit or review engagement for the same client, the provisions in the Code applicable to audit and review engagements, including Part 4A, and this Part apply to the firm, a network firm and the audit team members.

[Paragraph 5400.17 is intentionally left blank]

Requirements and Application Material

General

R5400.18 A firm performing a sustainability assurance engagement shall be independent.

R5400.19 A firm shall apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence in relation to a sustainability assurance engagement.

NZ R5400.19.1 Where a sustainability assurance practitioner identifies multiple threats to independence, which individually may not be significant, the sustainability assurance practitioner shall

evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

Prohibition on Assuming Management Responsibilities

R5400.20 A firm or a network firm shall not assume a management responsibility for a sustainability assurance client.

5400.20 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

5400.20 A2 When a firm or a network firm assumes a management responsibility for a sustainability assurance client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

5400.20 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction, for example, setting sustainability policies and goals.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorising transactions.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
    - Developing criteria used by the client for reporting sustainability information.
    - The preparation and presentation of the sustainability information in accordance with the applicable sustainability reporting framework, including identifying material sustainability matters to be reported.
    - Designing, implementing, monitoring or maintaining internal control.
    - Supply chain management.
    - Designing or implementing software to collect or produce sustainability data for the client.
    - Reporting on environmental credits or offsets.
    - Resource allocation for sustainability initiatives.
- Controlling or managing bank accounts or investments.

5400.20 A4 Subject to compliance with paragraph R5400.21, providing advice and recommendations to assist the management of a sustainability assurance client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to a sustainability assurance client might create a self-review threat and is addressed in Section 5600.

R5400.21 When performing a professional activity for a sustainability assurance client, the firm shall be satisfied that client management makes all judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:

(i) The objectives, nature and results of the activities; and

(ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

(b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

5400.21 A1 When technology is used in performing a professional activity for a sustainability assurance client, the requirements in paragraphs R5400.20 and R5400.21 apply regardless of the nature or extent of such use of the technology.

Public Interest Entities

[Paragraphs R5400.22 to 5400.24 A1 are intentionally left blank]

R5400.25 Subject to paragraph R5400.26, when a firm has applied the independence requirements for public interest entities as described in paragraph 5400.13 in performing a sustainability assurance engagement, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.

R5400.26 As an exception to paragraph R5400.25, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

Related Entities

R5400.27 As defined, a sustainability assurance client that is a publicly traded entity includes all of its related entities. For all other entities, references to a sustainability assurance client in this Part include related entities over which the client has direct or indirect control. When the sustainability assurance team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the sustainability assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 5400.28 to 5400.29 are intentionally left blank]

Period During which Independence is Required

R5400.30 Independence, as required by the *International Independence Standards (New Zealand)* in this Part, shall be maintained during both:

(a) The engagement period; and

(b) The reporting period for the engagement.

5400.30 A1 The engagement period starts when the engagement team begins to perform the sustainability assurance engagement. The engagement period ends when the sustainability assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final sustainability assurance report.

5400.30 A2 The reporting period for the engagement might be the same as the period covered by the financial statements. The reporting period for the engagement does not refer to the period covered by the sustainability information from the start of historical information to the end of any forward-looking information.

R5400.31 If an entity becomes a sustainability assurance client during or after the reporting period for the engagement, the firm shall determine whether any threats to independence are created by:

(a) Financial or business relationships with the sustainability assurance client during or after the reporting period for the engagement but before accepting the sustainability assurance engagement; or

(b) Previous services provided to the sustainability assurance client by the firm or a network firm.

5400.31 A1 Threats to independence are created if a non-assurance service was provided to a sustainability assurance client during, or after the reporting period for the engagement, but before the engagement team begins to perform the sustainability assurance engagement, and the service would not be permitted during the engagement period.

5400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the sustainability information on which the firm will express an opinion, the records underlying that information, or the internal controls over sustainability reporting.

5400.31 A3 Examples of actions that might be safeguards to address threats to independence include:

- Not assigning professionals who performed the non-assurance service to be members of the engagement team.
- Having an appropriate reviewer review the sustainability assurance work or non-assurance service as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

5400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the sustainability assurance engagement period or prior to the reporting period for the engagement is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period for which a sustainability assurance engagement has been undertaken by another firm.

Sustainability Assurance Clients that are Public Interest Entities

R5400.32 A firm shall not accept appointment to perform a sustainability assurance engagement for a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that might create a self-review threat in relation to the sustainability information on which the firm will express an opinion unless:

(a) The provision of such service ceases before the commencement of the sustainability assurance engagement period;

(b) The firm takes action to address any threats to its independence; and

(c) The firm determines that, in the view of a reasonable and informed third party, any threats to the firm's independence have been or will be eliminated or reduced to an acceptable level.

5400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of non-assurance services to a public interest entity prior to appointment to perform a sustainability assurance engagement to that entity include:

- The results of the service had been subject to sustainability assurance procedures in the course of the sustainability assurance engagement of the prior period's sustainability information by a predecessor firm.
- The firm engages a practitioner, who is not a member of the firm expressing the opinion on the sustainability information, to perform a review of the first sustainability assurance engagement affected by the self-review threat consistent with the objective of an engagement quality review.
- The public interest entity engages another firm outside of the network to:

  (i) Evaluate the results of the non-assurance service; or

  (ii) Re-perform the service,

  to the extent necessary to enable the other firm to take responsibility for the result of the service.

[Paragraphs 5400.33 to 5400.39 are intentionally left blank]

Communication with those Charged with Governance

5400.40 A1 Paragraphs R5300.9 and R5300.10 set out requirements with respect to communicating with those charged with governance.

5400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

(a) Consider the firm's judgements in identifying and evaluating threats;

(b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and

(c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

[Paragraphs 5400.41 to 5400.49 are intentionally left blank]

Network Firms

5400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide professional services. Whether these larger structures create a network

depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.

R5400.51 A network firm shall be independent of the sustainability assurance clients of the other firms within the network as required by this Part.

5400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

R5400.52 When associated with a larger structure of other firms and entities, a firm shall:

(a) Exercise professional judgement to determine whether a network is created by such a larger structure;

(b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and

(c) Apply such judgement consistently throughout such a larger structure.

R5400.53 When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

(a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 5400.53 A2);

(b) The entities within the structure share common ownership, control or management. (Ref: Para. 5400.53 A3);

(c) The entities within the structure share common quality management policies and procedures. (Ref: Para. 5400.53 A4);

(d) The entities within the structure share a common business strategy. (Ref: Para. 5400.53 A5);

(e) The entities within the structure share the use of a common brand name. (Ref: Para. 5400.53 A6, 5400.53 A7); or

(f) The entities within the structure share a significant part of professional resources. (Ref: Para 5400.53 A8, 5400.53 A9).

5400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network, in addition to those arrangements described in paragraph R5400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.

5400.53 A2 The sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of sustainability assurance methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R5400.53(a)).

5400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R5400.53(b)).

5400.53 A4 Common quality management policies and procedures are those designed, implemented and operated across the larger structure. (Ref: Para. R5400.53(c)).

5400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service. (Ref: Para. R5400.53(d)).

5400.53 A6 A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name when a leader of the firm signs a sustainability assurance report. (Ref: Para. R5400.53(e)).

5400.53 A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R5400.53(e)).

5400.53 A8 Professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records.
- Leaders and other personnel.
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
- Sustainability assurance methodology or sustainability assurance manuals.
- Training courses and facilities. (Ref: Para. R5400.53(f)).

5400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:

- The shared resources might be limited to common sustainability assurance methodology or sustainability assurance manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour.
- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R5400.53(f)).

R5400.54 If a firm or a network sells a part of its practice, and that part continues to use wholly or partly the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

5400.54 A1 The agreement for the sale of a part of a practice might provide that, for a limited period of time, that part can continue to use wholly or partly the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that

they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

[Paragraphs 5400.55 to 5400.59 are intentionally left blank]

General Documentation of Independence for Sustainability Assurance Engagements

R5400.60 A firm shall document conclusions regarding compliance with the *International Independence Standards (New Zealand)* in this Part, and the substance of any relevant discussions that support those conclusions. In particular:

(a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and

(b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

5400.60 A1 Documentation provides evidence of the firm's judgements in forming conclusions regarding compliance with the *International Independence Standards (New Zealand)* in this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

[Paragraphs 5400.61 to 5400.69 are intentionally left blank]

Mergers and Acquisitions

When a Client Merger Creates a Threat

5400.70 A1 An entity might become a related entity of a sustainability assurance client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue a sustainability assurance engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

R5400.71 In the circumstances set out in paragraph 5400.70 A1,

(a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the sustainability assurance engagement after the effective date of the merger or acquisition; and

(b) Subject to paragraph R5400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

R5400.72 As an exception to paragraph R5400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

(a) Evaluate the threat that is created by the interest or relationship; and

(b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.

5400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

5400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

- The nature and significance of the interest or relationship.
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent).
- The length of time until the interest or relationship can reasonably be ended.

R5400.73 If, following the discussion set out in paragraph R5400.72(b), those charged with governance request the firm to continue the sustainability assurance engagement, the firm shall do so only if:

(a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;

(b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 5600 and its subsections, will not be a member of the engagement team for the sustainability assurance engagement or the individual responsible for the engagement quality review; and

(c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

5400.73 A1 Examples of such transitional measures include:

- Having a sustainability assurance practitioner review the sustainability assurance or non-assurance work as appropriate.
- Having a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, perform a review that is consistent with the objective of an engagement quality review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R5400.74 The firm might have completed a significant amount of work on the sustainability assurance engagement prior to the effective date of the merger or acquisition and might be able to complete the remaining assurance procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the sustainability assurance engagement while continuing with an interest or relationship identified in paragraph 5400.70 A1, the firm shall only do so if it:

(a) Has evaluated the level of the threat and discussed the results with those charged with governance;

(b) Complies with the requirements of paragraph R5400.73(b) to (c); and

(c) Ceases to perform the sustainability assurance engagement no later than the date that the sustainability assurance report is issued.

If Objectivity Remains Compromised

R5400.75 Even if all the requirements of paragraphs R5400.71 to R5400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 5400.70 A1 create a

threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to perform the sustainability assurance engagement.

Documentation

R5400.76 The firm shall document:

(a) Any interests or relationships identified in paragraph 5400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;

(b) The transitional measures applied;

(c) The results of the discussion with those charged with governance; and

(d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

[Paragraphs 5400.77 to 5400.79 are intentionally left blank.]

Breach of an Independence Provision for Sustainability Assurance Engagements

When a Firm Identifies a Breach

R5400.80 If a firm concludes that a breach of an independence requirement in this Part has occurred, the firm shall:

(a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;

(b) Consider whether any legal or regulatory requirements apply to the breach and, if so:

(i) Comply with those requirements; and

(ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;

(c) Promptly communicate the breach in accordance with its policies and procedures to:

(i) The engagement leader;

(ii) The individual with operational responsibility for compliance with independence requirements;

(iii) Other relevant personnel in the firm and, where appropriate, the network; and

(iv) Those subject to the independence requirements in Part 5 who need to take appropriate action;

(d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue a sustainability assurance report; and

(e) Depending on the significance of the breach, determine:

(i) Whether to end the sustainability assurance engagement; or

(ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue a sustainability assurance report.

5400.80 A1 A breach of an independence provision of this Part might occur despite the firm having a system of quality management designed to address independence requirements. It might be necessary to end the sustainability assurance engagement because of the breach.

5400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue a sustainability assurance report will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current sustainability assurance engagement.
- Whether a sustainability assurance team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is a sustainability assurance team member or another individual for whom there are independence requirements.
- If the breach relates to a sustainability assurance team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the records underlying, or data comprising, the sustainability information on which the firm will express an opinion.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

5400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the sustainability assurance team.
- Using different individuals to conduct an additional review of the affected assurance work or to re-perform that work to the extent necessary.
- Recommending that the sustainability assurance client engage another firm to review or re-perform the affected assurance work to the extent necessary.
- If the breach relates to a non-assurance service that affects the records underlying, or data comprising, the sustainability information on which the firm will express an opinion, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R5400.81 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the sustainability assurance engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

R5400.82 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

(a) The significance of the breach, including its nature and duration;

(b) How the breach occurred and how it was identified;

(c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue a sustainability assurance report;

(d) The conclusion that, in the firm's professional judgement, objectivity has not been compromised and the rationale for that conclusion; and

(e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

Communication of Breaches to Those Charged with Governance

5400.83 A1 Paragraphs R5300.9 and R5300.10 set out requirements with respect to communicating with those charged with governance.

R5400.84 With respect to breaches, the firm shall communicate in writing to those charged with governance:

(a) All matters discussed in accordance with paragraph R5400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and

(b) A description of:

(i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and

(ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

R5400.85 If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R5400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the sustainability assurance engagement in accordance with paragraph R5400.81.

Breaches Before the Previous Sustainability Assurance Report Was Issued

R5400.86 If the breach occurred prior to the issuance of the previous sustainability assurance report, the firm shall comply with the independence provisions of this Part in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue a sustainability assurance report in the current period.

R5400.87 The firm shall also:

(a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued sustainability assurance reports, and the possibility of withdrawing such reports; and

(b) Discuss the matter with those charged with governance.

Documentation

R5400.88 In complying with the requirements in paragraphs R5400.80 to R5400.87, the firm shall document:

(a) The breach;

(b) The actions taken;

(c) The key decisions made;

(d) All the matters discussed with those charged with governance; and

(e) Any discussions with a professional or regulatory body or oversight authority.

R5400.89 If the firm continues with the sustainability assurance engagement, it shall document:

(a) The conclusion that, in the firm's professional judgement, objectivity has not been compromised; and

(b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue a sustainability assurance report.

SECTION 5405 GROUP SUSTAINABILITY ASSURANCE ENGAGEMENTS

Introduction

5405.1 Section 5400 requires a firm to be independent when performing a sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing a group sustainability assurance engagement.

Requirements and Application Material

General

5405.2 A1 Depending on the sustainability reporting framework, the firm might express an opinion on group sustainability information that includes information about components required to be included in the group financial statements (group components). The applicable sustainability reporting framework might also require the sustainability information to be extended to include information from other entities (for example, value chain components). Such sustainability information, including information from the value chain, constitutes group sustainability information for the purposes of this Part.

5405.2 A1a The firm might perform assurance work, or use the assurance work of another sustainability assurance practitioner performed, at the sustainability assurance client or at a value chain component, for purposes of the group sustainability assurance engagement. That other sustainability assurance practitioner is a component practitioner where the group sustainability assurance firm is able to be sufficiently and appropriately involved in the assurance work of that other practitioner.

5405.2 A1b Subsection A below sets out independence requirements and application material that are applicable to the group sustainability assurance firm, component practitioners and members of the group sustainability assurance team when assurance work is performed at a group sustainability assurance client or a group component.

5405.2 A1c Subsection B below sets out independence requirements and application material that are applicable to the group sustainability assurance firm, component practitioners and members of the group sustainability assurance team when assurance work is performed at a value chain component for purposes of the group sustainability assurance engagement.

5405.2 A1d Where the group sustainability assurance firm intends to use the assurance work of another practitioner for purposes of the group sustainability assurance engagement and the group sustainability assurance firm is unable to be sufficiently and appropriately involved in the assurance work of that practitioner, Section 5406 applies.

5405.2 A2 A component practitioner that participates in a group sustainability assurance engagement might separately issue an assurance opinion on the sustainability information of the component. Depending on the circumstances, the component practitioner might need to comply with different independence requirements when performing assurance work for a group sustainability assurance engagement and separately issuing an assurance opinion on the sustainability information of the component for statutory, regulatory or other reasons.

5405.2 A3 This section sets out independence requirements applicable when the group sustainability assurance firm or a component practitioner performs assurance work at a component. These requirements apply when the group sustainability assurance firm has determined that, to obtain evidence for purposes of the group sustainability assurance engagement,

assurance procedures need to be performed on the data or information maintained by the component which underlies the component's sustainability information. Accordingly:

- If the group sustainability assurance firm or a component practitioner performs assurance procedures on the underlying data or information maintained by the component to identify and assess or to respond to risks of material misstatement of the component's sustainability information, the group sustainability assurance firm or the component practitioner is subject to the independence requirements in this section with respect to that component.
- If the group sustainability assurance firm performs planning procedures at the group level solely to determine whether an entity or a business unit is a value chain component at which assurance work will be performed for purposes of the group sustainability assurance engagement, the group sustainability assurance firm is not subject to the independence requirements in this section with respect to that entity or business unit.
- If the group sustainability assurance firm obtains evidence about a value chain component's sustainability information without performing procedures on the underlying data or information maintained by the component, the group sustainability assurance firm is not subject to the independence requirements in this section with respect to that component.

Communication Between a Group Sustainability Assurance Firm and a Component Practitioner

R5405.3 The group engagement leader shall take responsibility to make a component practitioner aware of the relevant ethics, including independence, provisions in this Part that are applicable given the nature and the circumstances of the group sustainability assurance engagement. When making the component practitioner aware of the relevant ethics, including independence, provisions, the group sustainability assurance firm shall communicate at appropriate times the necessary information to enable the component practitioner to meet its responsibilities under this section.

5405.3 A1 Examples of matters the group sustainability assurance firm might communicate include:

- Whether the group sustainability assurance client is a public interest entity and the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement.
- The related entities and other group components within the group sustainability assurance client that are relevant to the independence considerations applicable to the component practitioner and the group sustainability assurance team members within, or engaged by, that practitioner.
- The period during which the component practitioner is required to be independent.
- Whether a sustainability assurance leader who performs work at a group component for purposes of the group sustainability assurance engagement is a key sustainability assurance leader for the group sustainability assurance engagement.

R5405.4 The group engagement leader shall take responsibility for requesting the component practitioner to confirm whether it understands and will comply with the relevant provisions of this Part that apply to the group sustainability assurance engagement. The group engagement leader shall also request the component practitioner to communicate:

(a) Any independence matters that require significant judgement; and

(b) In relation to those matters, the component practitioner's conclusion whether the threats to its independence are at an acceptable level, and the rationale for that conclusion.

R5405a If a matter comes to the attention of the group engagement leader that indicates that a threat to independence exists, the group engagement leader shall evaluate the threat and take appropriate action.

A – Requirements and Application Material When Assurance Work is Performed at a Group Sustainability Assurance Client or a Group Component

Independence Considerations Applicable to Individuals

Members of the Group Sustainability Assurance Team Within, or Engaged by, a Group Sustainability Assurance Firm and Its Network Firms

R5405.5 Members of the group sustainability assurance team within, or engaged by, the group sustainability assurance firm and its network firms shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

Other Members of the Group Sustainability Assurance Team

R5405.6 If a component practitioner outside the group sustainability assurance firm's network performs assurance work at a group component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, that component practitioner shall be independent of:

(a) The group component;

(b) The entity on whose group sustainability information the group sustainability assurance firm expresses an opinion; and

(c) Any entity over which the entity in subparagraph (b) has direct or indirect control, provided that such entity has direct or indirect control over the group component,

in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

R5405.7 In relation to related entities or other group components within the group sustainability assurance client other than those covered in paragraph R5405.6, if a component practitioner outside the group sustainability assurance firm's network performs assurance work at a group component for purposes of the group sustainability assurance engagement, a member of the group sustainability assurance team within, or engaged by, that component practitioner shall notify the component practitioner about any relationship or circumstance the individual knows, or has reason to believe, might create a threat to the individual's independence in the context of the group sustainability assurance engagement.

5405.7A1 Examples of relationships or circumstances involving the individual or any of the individual's immediate family members, as applicable, that are relevant to the individual's consideration when complying with paragraph R5405.7 include:

- A direct or material indirect financial interest in an entity that has control over the group sustainability assurance client if the group sustainability assurance client is material to that entity (see Section 5510).
- A loan or guarantee involving: (see Section 5511)

- An entity that is not a bank or similar institution unless the loan or guarantee is immaterial; or
- A bank or similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

- A business relationship that is significant or involves a material financial interest (see Section 5520).
- An immediate family member who is: (see Section 5521)
  - A director or officer of an entity; or
  - An employee in a position to exert significant influence over the preparation of an entity's sustainability information data or records or sustainability information.
- The individual serving as, or having recently served as: (see Section 5522 and Section 5523)
  - A director or officer of an entity; or
  - An employee in a position to exert significant influence over the preparation of an entity's sustainability information data or records or sustainability information.

R5405.8 Upon receiving the notification as set out in paragraph R5405.7, the component practitioner shall evaluate and address any threats to independence created by the individual's relationship or circumstance.

Independence Considerations Applicable to a Group Sustainability Assurance Firm

R5405.9 A group sustainability assurance firm shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to a firm.

Independence Considerations Applicable to Network Firms of a Group Sustainability Assurance Firm

R5405.10 A network firm of the group sustainability assurance firm shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to a network firm.

Independence Considerations Applicable to Component Practitioners outside a Group Sustainability Assurance Firm's Network

All Group Sustainability Assurance Clients

R5405.11 A component practitioner outside the group sustainability assurance firm's network, performing assurance work at a group component, shall:

(a) Be independent of the group component in accordance with the requirements of this Part that are applicable to a firm with respect to all sustainability assurance clients;

(b) Apply the relevant requirements in paragraphs R5510.4(a), R5510.7 and R5510.9 with respect to financial interests in the entity on whose group sustainability information the group sustainability assurance firm expresses an opinion; and

(c) Apply the relevant requirements in Section 5511 with respect to loans and guarantees involving the entity on whose group sustainability information the group sustainability assurance firm expresses an opinion.

R5405.12 When a component practitioner outside the group sustainability assurance firm's network, performing assurance work at a group component, knows, or has reason to believe, that a relationship or circumstance involving the group sustainability assurance client, beyond those addressed in paragraph R5405.11(b) and (c), is relevant to the evaluation of the component practitioner's independence from the group component, the component practitioner shall include that relationship or circumstance when identifying, evaluating and addressing threats to independence.

R5405.13 When a component practitioner outside the group sustainability assurance firm's network, performing assurance work at a group component, knows, or has reason to believe, that a relationship or circumstance of a firm within the component practitioner's network with the group component or the group sustainability assurance client creates a threat to the component practitioner's independence, the component practitioner shall evaluate and address any such threat.

[Paragraph 5405.14 A1 is intentionally left blank]

Group Sustainability Assurance Clients that are Not Public Interest Entities

R5405.15 When the group sustainability assurance client is not a public interest entity, a component practitioner outside the group sustainability assurance firm's network performing assurance work at a group component for purposes of the group sustainability assurance engagement shall be independent of the group component in accordance with the requirements set out in this Part that are applicable to sustainability assurance clients that are not public interest entities.

5405.15 A1 Where a component practitioner outside the group sustainability assurance firm's network also performs a sustainability assurance engagement for a group component that is a public interest entity for reasons other than the group sustainability assurance engagement, for example, a statutory sustainability assurance engagement, the independence requirements that are relevant to sustainability assurance clients that are public interest entities apply to that engagement.

Group Sustainability Assurance Clients that are Public Interest Entities

Non-Assurance Services

R5405.16 Subject to paragraph R5405.17, when the group sustainability assurance client is a public interest entity, a component practitioner outside the group sustainability assurance firm's network performing assurance work at a group component shall comply with the provisions in Section 5600 that are applicable to public interest entities with respect to the provision of non-assurance services to the group component.

5405.16 A1 Where the group sustainability assurance client is a public interest entity and the group component at which assurance work is performed is not a public interest entity, the component practitioner outside the group sustainability assurance firm's network performing assurance work at that group component is prohibited from, for example:

- Providing to the group component, sustainability data and information services that might affect the sustainability information on which the component practitioner will perform assurance work (see Subsection 5601).

- Designing the information technology system, or an aspect of it, for the group component where such information technology system generates information for the group component's sustainability information, or the sustainability records underlying that information, on which the component practitioner will perform assurance work (see Subsection 5606).
- Acting in an advocacy role for the group component in resolving a dispute or litigation before a tribunal or court (see Subsection 5608).

5405.16 A2 The sustainability information on which a component practitioner outside the group sustainability assurance firm's network performs assurance procedures is relevant to the evaluation of the self-review threat that might be created by the component practitioner's provision of a non-assurance service, and therefore the application of Section 5600. For example, if the component practitioner's assurance procedures are limited to a specific item such as greenhouse gas emissions, the results of any non-assurance service that form part of or affect the sustainability records or the sustainability information related to the reporting on, or the internal controls over, greenhouse gas emissions are relevant to the evaluation of the self-review threat.

R5405.17 As an exception to paragraph R5405.16, a component practitioner outside the group sustainability assurance firm's network may provide a non-assurance service that is not prohibited under Section 5600 to a group component without communicating information about the proposed non-assurance service to those charged with governance of the group sustainability assurance client or obtaining their concurrence regarding the provision of that service as addressed by paragraphs R5600.22 to R5600.25.

Key Sustainability Assurance Leaders

R5405.18 The group engagement leader shall determine whether a sustainability assurance leader who performs assurance work at a group component for purposes of the group sustainability assurance engagement is a key sustainability assurance leader for the group sustainability assurance engagement. If so, the group engagement leader shall:

(a) Communicate that determination to that individual; and

(b) Indicate:

(i) In the case of all group sustainability assurance clients, that the individual is subject to paragraph R5411.4; and

(ii) In the case of group sustainability assurance clients that are public interest entities, that the individual is also subject to paragraphs R5524.6, R5540.7(c) and R5540.23.

5405.18 A1 A key sustainability assurance leader makes key decisions or judgements on significant matters with respect to the group sustainability information on which the group sustainability assurance firm expresses an opinion in the group sustainability assurance engagement.

Changes in Group Components

R5405.19 When an entity that is not a related entity becomes a group component within the group sustainability assurance client, the group sustainability assurance firm shall apply the requirements in paragraphs R5400.71 to R5400.76 with respect to the change regarding the group component for purposes of the sustainability assurance engagement.

Changes in Component Practitioners that Perform Assurance Work at Group Components

All Group Sustainability Assurance Clients

5405.20 A1 There might be circumstances in which the group sustainability assurance firm requests another firm to perform assurance work as a component practitioner at a group component during or after the reporting period for the engagement, for example, due to a client merger or acquisition. A threat to the component practitioner's independence might be created by:

(a) Financial or business relationships of the component practitioner with the group component during or after the reporting period for the engagement but before the component practitioner agrees to perform the assurance work; or

(b) Previous services provided to the group component by the component practitioner.

5405.20 A2 Paragraphs 5400.31 A1 to A3 set out application material that is applicable for a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the group component during or after the reporting period for the engagement, but before the component practitioner begins to perform the assurance work for purposes of the group sustainability assurance engagement, and the service would not be permitted during the engagement period.

5405.20 A3 Paragraph 5400.31 A4 sets out application material that is applicable for a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the group component prior to the reporting period for the engagement.

Group Sustainability Assurance Clients that are Public Interest Entities

5405.21 A1 Paragraphs R5400.32 and 5400.32 A1 are applicable when a component practitioner agrees to perform assurance work for group sustainability assurance purposes in relation to a group sustainability assurance client that is a public interest entity if the component practitioner has previously provided a non-assurance service to the group component.

5405.21 A2 Paragraphs R5600.25 and 5600.25 A1 are applicable in relation to a non-assurance service provided, either currently or previously, by a component practitioner to a group component when the group sustainability assurance client subsequently becomes a public interest entity.

Breach of an Independence Provision at a Component Practitioner

5405.22 A1 A breach of a provision of this section might occur despite a component practitioner having a system of quality management designed to address independence requirements. Paragraphs R5405.23 to R5405.29 are relevant to a group sustainability assurance firm's determination as to whether it would be able to use a component practitioner's work if a breach has occurred at the component practitioner.

5405.22 A2 In the case of a breach at a component practitioner within the group sustainability assurance firm's network, paragraphs R5400.80 to R5400.89 also apply to the group sustainability assurance firm in relation to the group sustainability assurance engagement, as applicable.

When a Component Practitioner Identifies a Breach

R5405.23 If a component practitioner concludes that a breach of this section has occurred, the component practitioner shall:

(a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;

(b) Evaluate the significance of the breach and its impact on the component practitioner's objectivity and ability to perform assurance work for purposes of the group sustainability assurance engagement;

(c) Depending on the significance of the breach, determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and

(d) Promptly communicate in writing the breach to the group engagement leader, including the component practitioner's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

5405.23 A1 Paragraphs 5400.80 A2 and A3 set out application material relevant to the component practitioner's evaluation of the significance and impact of the breach on the component practitioner's objectivity and ability to issue an opinion or conclusion on the assurance work performed at the group component for purposes of the group sustainability assurance engagement, and its consideration of any actions that might be taken to address the consequences of the breach satisfactorily.

R5405.24 Upon receipt of the component practitioner's communication of the breach, the group engagement leader shall:

(a) Review the component practitioner's assessment of the significance of the breach and its impact on the component practitioner's objectivity, and any action that can be or has been taken to address the consequences of the breach;

(b) Evaluate the group sustainability assurance firm's ability to use the work of the component practitioner for purposes of the group sustainability assurance engagement; and

(c) Determine the need for any further action.

R5405.25 In applying paragraph R5405.24, the group engagement leader shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the component practitioner's objectivity is compromised and, therefore, the group sustainability assurance firm is unable to use the work of the component practitioner for purposes of the group sustainability assurance engagement.

5405.25 A1 If the group engagement leader determines that the consequences of the breach have been satisfactorily addressed by the component practitioner and do not compromise the component practitioner's objectivity, the group sustainability assurance firm may continue to use the work of the component practitioner for the group sustainability assurance engagement. In certain circumstances, the group engagement leader might determine that additional actions are needed to satisfactorily address the breach in order to use the component practitioner's work. Examples of such action include the group sustainability assurance firm performing specific procedures on the areas impacted by the breach or requesting the component practitioner to perform appropriate remedial work on the affected areas.

5405.25 A2 If there has been a breach by a component practitioner and the breach has not been satisfactorily addressed, the group sustainability assurance firm cannot use the work of that component practitioner. In those circumstances, the group engagement leader might find other means to obtain the necessary assurance evidence on the group component's

sustainability information. Examples of such means include the group sustainability assurance firm performing the necessary assurance work at the group component or requesting another component practitioner to perform such assurance work.

Discussion with Those Charged with Governance of the Group Sustainability Assurance Client

5405.26 A1 With respect to breaches by a component practitioner within the group sustainability assurance firm's network, paragraph R5400.84 applies.

R5405.27 With respect to breaches by a component practitioner outside the group sustainability assurance firm's network, the group sustainability assurance firm shall discuss with those charged with governance of the group sustainability assurance client:

(a) The component practitioner's assessment of the significance and impact of the breach on the component practitioner's objectivity, including the nature and duration of the breach, and the action that can be or has been taken; and

(b) Whether

(i) The action will satisfactorily address, or has addressed, the consequences of the breach; or

(ii) The group sustainability assurance firm will use other means to obtain the necessary assurance evidence on the group component's sustainability information.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

R5405.28 The group sustainability assurance firm shall communicate in writing to those charged with governance of the group sustainability assurance client all matters discussed in accordance with paragraph R5405.27 and obtain the concurrence of those charged with governance that the action can be or has been taken to satisfactorily address the consequences of the breach.

R5405.29 If those charged with governance do not concur that the action that can be or has been taken would satisfactorily address the consequences of the breach at the component practitioner, the group sustainability assurance firm shall not use the work performed by the component practitioner for purposes of the group sustainability assurance engagement.

B – Requirements and Application Material When Assurance Work is Performed at a Value Chain Component

Independence Considerations Applicable to Individuals

Members of the Group Sustainability Assurance Team Within, or Engaged by, a Group Sustainability Assurance Firm

R5405.30A If a group sustainability assurance firm performs assurance work at a value chain component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, the group sustainability assurance firm shall be independent of that value chain component in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

5405.30A A1 When the group sustainability assurance client is a public interest entity, members of the group sustainability assurance team within, or engaged by, the group sustainability assurance firm performing assurance work at a value chain component are not required to comply with the provisions that are applicable to public interest entities.

5405.30A A2 If the group sustainability assurance firm performs assurance work at a value chain component, members of the group sustainability assurance team within, or engaged by, firms within the group sustainability assurance firm's network are not subject to the independence requirements of this Part with respect to that value chain component.

Members of the Group Sustainability Assurance Team Within, or Engaged by, a Component Practitioner Within the Group Sustainability Assurance Firm's Network

R5405.30B If a component practitioner within the group sustainability assurance firm's network performs assurance work at a value chain component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, the component practitioner shall be independent of that value chain component in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

5405.30B A1 When the group sustainability assurance client is a public interest entity, members of the group sustainability assurance team within, or engaged by, the component practitioner within the group sustainability assurance firm's network performing assurance work at a value chain component are not required to comply with the provisions that are applicable to public interest entities.

5405.30B A2 If a component practitioner within the group sustainability assurance firm's network performs assurance work at a value chain component, members of the group sustainability assurance team, within, or engaged by, the group sustainability assurance firm or other network firms are not subject to the independence requirements of this Part with respect to that value chain component.

Other Members of the Group Sustainability Assurance Team

R5405.31 If a component practitioner outside the group sustainability assurance firm's network performs assurance work at a value chain component for purposes of the group sustainability assurance engagement, members of the group sustainability assurance team within, or engaged by, that component practitioner shall be independent of the value chain component in accordance with the requirements of this Part that are applicable to a sustainability assurance team.

5405.31 A1 When the group sustainability assurance client is a public interest entity, members of the group sustainability assurance team within, or engaged by, the component practitioner

outside the group sustainability assurance firm's network performing assurance work at a value chain component are not required to comply with the provisions that are applicable to public interest entities.

5405.31 A2 If a component practitioner outside the group sustainability assurance firm's network performs assurance work at a value chain component, members of the group sustainability assurance team members within, or engaged by, the group sustainability assurance firm or its network firms are not subject to the independence requirements of this Part with respect to that value chain component.

Independence Considerations Applicable to a Group Sustainability Assurance Firm

R5405.32 A group sustainability assurance firm shall be independent of a value chain component at which the group sustainability assurance firm performs assurance work for purposes of the group sustainability assurance engagement, in accordance with the requirements of this Part that are applicable to a firm.

5405.32 A1 When the group sustainability assurance client is a public interest entity, the group sustainability assurance firm performing assurance work at a value chain component is not required to comply with the provisions that are applicable to public interest entities with respect to that value chain component.

5405.32 A2 If the group sustainability assurance firm performs assurance work at a value chain component, network firms of the group sustainability assurance firm are not subject to the independence requirements of this Part with respect to that value chain component.

Independence Considerations Applicable to Component Practitioners Within the Group Sustainability Assurance Firm's Network

R5405.33 A component practitioner within the group sustainability assurance firm's network shall be independent of a value chain component at which the component practitioner performs assurance work for purposes of the group sustainability assurance engagement, in accordance with the requirements of this Part that are applicable to a firm.

5405.33 A1 When the group sustainability assurance client is a public interest entity, a component practitioner within the group sustainability assurance firm's network performing assurance work at a value chain component is not required to comply with the provisions that are applicable to public interest entities with respect to that value chain component.

5405.33 A2 If a component practitioner within the group sustainability assurance firm's network performs assurance work at a value chain component, the group sustainability assurance firm and other network firms are not subject to the independence requirements of this Part with respect to that value chain component.

Independence Considerations Applicable to Component Practitioners outside a Group Sustainability Assurance Firm's Network

R5405.34 A component practitioner outside the group sustainability assurance firm's network performing assurance work at a value chain component for purposes of the group sustainability assurance engagement shall be independent of the value chain component in accordance with the requirements of this Part that are applicable to a firm.

5405.34 A1 When the group sustainability assurance client is a public interest entity, a component practitioner outside the group sustainability assurance firm's network performing assurance work at a value chain component is not required to comply with the provisions that are applicable to public interest entities with respect to that value chain component.

5405.34 A2 If a component practitioner outside a group sustainability assurance firm's network performs assurance work at a value chain component, the group sustainability assurance firm and its network firms are not subject to the independence requirements of this Part with respect to that value chain component.

Changes in Value Chain Components

R5405.35 When an entity becomes a value chain component during the reporting period for the engagement and the group sustainability assurance firm performs assurance work at the value chain component for purposes of the group sustainability assurance engagement, the group sustainability assurance firm shall apply paragraph R5400.31 with respect to the change regarding the value chain component.

Changes in Component Practitioners that Perform Assurance Work at Value Chain Components

5405.36 A1 There might be circumstances in which the group sustainability assurance firm requests another firm to perform assurance work as a component practitioner at a value chain component during or after the reporting period for the engagement. A threat to the component practitioner's independence might be created by:

(a) Financial or business relationships of the component practitioner with the value chain component during or after the reporting period for the engagement but before the component practitioner agrees to perform the assurance work; or

(b) Previous services provided to the value chain component by the component practitioner.

5405.36 A2 Paragraphs 5400.31 A1 to A3 set out application material that is applicable for a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the value chain component during or after the reporting period for the engagement, but before the component practitioner begins to perform the assurance work for purposes of the group sustainability assurance engagement, and the service would not be permitted during the engagement period.

5405.36 A3 Paragraph 5400.31 A4 sets out application material that is applicable to a component practitioner's assessment of threats to independence if a non-assurance service was provided by the component practitioner to the value chain component prior to the reporting period for the engagement.

Breach of an Independence Provision at a Component Practitioner

R5405.37 If a component practitioner performing assurance work at a value chain component concludes that a breach of this section has occurred, the group sustainability assurance firm and the component practitioner shall apply, with respect to the value chain component, paragraphs 5405.22 A1 to R5405.29 of subsection A applicable to a group component.

SECTION 5406 ANOTHER PRACTITIONER WHOSE ASSURANCE WORK IS USED IN A SUSTAINABILITY ASSURANCE ENGAGEMENT

Introduction

5406.1 Section 5400 requires a firm to be independent when performing a sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when a firm intends to use the assurance work of another sustainability assurance practitioner performed at the firm's sustainability assurance client or a value chain component, and the firm is unable to be sufficiently and appropriately involved in that assurance work. Such a practitioner is referred to in this section as "another practitioner." The individuals from another practitioner are not members of the engagement team.

5406.2 This section does not apply if the firm intends to use non-assurance work performed by another practitioner at the firm's sustainability assurance client or a value chain component. In such circumstances, the requirement in paragraph R5300.11 applies.

Requirements and Application Material

General

5406.3 A1 The sustainability information, prepared on a standalone or group basis, might include information that has been or will be assured by another practitioner. Examples of such circumstance are where the client chooses to engage another practitioner in relation to certain sustainability information, or where another practitioner performs assurance work at a value chain component.

5406.3A2 As a firm may use the work of another practitioner for standalone or group sustainability assurance engagements, the references in this section to firm, engagement leader, sustainability assurance engagement, sustainability assurance team and sustainability assurance client also mean group sustainability assurance firm, group engagement leader, group sustainability assurance engagement, group sustainability assurance team and group sustainability assurance client, as applicable.

Using the Assurance Work of Another Practitioner Related to a Sustainability Assurance Client

Communication Between the Firm and Another Practitioner

R5406.4 If the firm determines to use the assurance work of another practitioner relating to the sustainability information of a sustainability assurance client for purposes of the sustainability assurance engagement, the engagement leader shall take responsibility to make that practitioner aware of the relevant ethics, including independence, provisions in this Part that are applicable to the sustainability assurance client given the nature and the circumstances of the sustainability assurance engagement. When making another practitioner aware of the relevant provisions in this Part, the firm shall communicate at appropriate times the necessary information to enable that practitioner to confirm their compliance with those provisions.

5406.4 A1 Examples of matters the firm might communicate include:

- Whether the sustainability assurance client is a public interest entity and the relevant provisions applicable to the sustainability assurance engagement.
- The related entities within the sustainability assurance client that are relevant to the independence considerations applicable to another practitioner.

- The period during which independence is required.

Independence Considerations When the Firm Intends to Use the Assurance Work of Another Practitioner Performed at the Firm's Sustainability Assurance Client

R5406.5 If the firm intends to use the assurance work of another practitioner performed at the firm's sustainability assurance client, the firm shall request that practitioner to confirm that:

(a) The practitioner meets the independence requirements in this Part applicable to a firm with respect to the entity at which the other practitioner performs assurance work; and

(b) The individuals from that other practitioner who perform the assurance work meet the independence requirements in this Part applicable to a member of a sustainability assurance team with respect to that entity.

5406.5 A1 If the firm is not able to obtain another practitioner's confirmation of independence in accordance with paragraph R5406.5, the firm cannot conclude that the other practitioner is independent in accordance with the requirements of this Part.

Using the Assurance Work of Another Practitioner Related to a Value Chain Component

R5406.6 If the firm intends to use the assurance work of another practitioner relating to the sustainability information of a value chain component, the firm shall be satisfied that the other practitioner meets the independence requirements in this Part applicable to a firm with respect to that value chain component.

5406.6 A1 Examples of ways to meet the requirement in paragraph R5406.6 include the firm:

- Reviewing a statement of independence issued by the other practitioner in relation to the assurance work performed at the value chain component.
- Requesting the other practitioner to confirm that the practitioner meets the independence requirements of this Part applicable to a firm with respect to the value chain component.

5406.6 A2 If the firm is not able to be satisfied that the other practitioner meets the independence requirements as set out in paragraph R5406.6, the firm cannot conclude that the other practitioner is independent in accordance with the requirements of this Part for purposes of the sustainability assurance engagement

5406.6 A3 If a firm intends to use the assurance work of another practitioner relating to the sustainability information of a value chain component for the purposes of the sustainability assurance engagement, the firm is not subject to the independence requirements of this Part with respect to that value chain component.

SECTION 5410 FEES

Introduction

5410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5410.2 Section 5330 sets out application material relevant to applying the conceptual framework where the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to sustainability assurance clients.

Requirements and Application Material

General

5410.3 A1 Fees for professional services are usually negotiated with and paid by a sustainability assurance client and might create threats to independence. This practice is generally recognised and accepted by intended users of sustainability information.

5410.3 A2 When the sustainability assurance client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for sustainability assurance clients that are public interest entities.

5410.3 A3 For the purposes of this section, sustainability assurance fees comprise fees or other types of remuneration for a sustainability assurance engagement.

5410.3 A4 If the firm also performs the audit engagement for the same client, the audit fees and fees for the sustainability assurance engagement are a matter for the firm and the client to agree. If the sustainability assurance engagement is a separate engagement, the provisions in this Part apply, in addition to the relevant provisions in Part 4A that apply to the separate audit engagement.

Fees Paid by a Sustainability Assurance Client

5410.4 A1 When fees are negotiated with and paid by a sustainability assurance client, this creates a self-interest threat and might create an intimidation threat to independence.

5410.4 A2 The application of the conceptual framework requires that before a firm or network firm accepts a sustainability assurance engagement, or any other engagement for a sustainability assurance client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period for the sustainability assurance engagement.

5410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for a sustainability assurance engagement, or any other engagement, are paid by the sustainability assurance client include:

- The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.

- Any linkage between fees for the sustainability assurance engagement and those for services other than the sustainability assurance engagement and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- Whether the fee is for services to be provided by the firm or a network firm.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The operating structure and the compensation arrangements of the firm and network firms.
- The significance of the client, or a third party referring the client, to the firm, network firm, engagement leader or office.
- The nature of the client, for example whether the client is a public interest entity.
- The relationship of the client to the related entities to which the services other than the sustainability assurance engagement are provided, for example when the related entity is a sister entity.
- The involvement of those charged with governance in appointing the firm providing the sustainability assurance service and agreeing fees, and the apparent emphasis they and client management place on the quality of the sustainability assurance engagement and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the firm's sustainability assurance work is subject to the review of an independent third party, such as an oversight body.

5410.4 A4 The conditions, policies and procedures described in paragraph 5120.15 A3 (particularly a system of quality management designed, implemented and operated by the firm in accordance with applicable quality management standards) might also impact the evaluation of whether the threats to independence are at an acceptable level.

5410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Sustainability Assurance Fees

5410.5 A1 Determining the fees to be charged to a sustainability assurance client, whether for the sustainability assurance engagement or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

5410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the sustainability assurance fee paid by the sustainability assurance client include:

- The firm's commercial rationale for the sustainability assurance fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the sustainability assurance fee.

5410.5 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the sustainability assurance engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the sustainability assurance engagement review the work performed.

Impact of Other Services Provided to a Sustainability Assurance Client

R5410.6 Subject to paragraph R5410.7, a firm shall not allow the sustainability assurance fee to be influenced by the provision of services other than the sustainability assurance engagement to a sustainability assurance client by the firm or a network firm.

5410.6 A1 The sustainability assurance fee ordinarily reflects a combination of matters, such as those identified in paragraph 5410.23 A1. However, the provision of other services to a sustainability assurance client is not an appropriate consideration in determining the sustainability assurance fee.

R5410.7 As an exception to paragraph R5410.6, when determining the sustainability assurance fee, the firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than the sustainability assurance engagement to a sustainability assurance client.

Contingent Fees

5410.8 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R5410.9 A firm shall not charge directly or indirectly a contingent fee for a sustainability assurance engagement.

R5410.10 A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to a sustainability assurance client, if:

(a) The fee is charged by the firm expressing the opinion on the sustainability information and the fee is material or expected to be material to that firm;

(b) The fee is charged by a network firm that participates in a significant part of the sustainability assurance engagement and the fee is material or expected to be material to that firm; or

(c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to the assurance of material information in the sustainability information on which the firm will express an opinion.

5410.10 A1 Paragraphs R5410.9 and R5410.10 preclude a firm or a network firm from entering into certain contingent fee arrangements with a sustainability assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to a sustainability assurance client, it might still impact the level of the self-interest threat.

5410.10 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.

- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the sustainability information on which the firm will express an opinion.

5410.10 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees – Proportion of Fees for Services Other than Sustainability Assurance to Sustainability Assurance Fee

5410.11 A0 Where a firm performs both an audit engagement and a sustainability assurance engagement for a sustainability assurance client, paragraphs 410.11 A1 to 410.11 A3 in Part 4A apply in the context of the fees charged by the firm and network firms to the sustainability assurance client. Where the firm is not engaged to perform an audit engagement for the client, paragraphs 5410.11 A2 to A4 apply.

5410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to a sustainability assurance client is generated by providing services other than the sustainability assurance engagement to the client, due to concerns about the potential loss of either the sustainability assurance engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-sustainability assurance relationship, which might create a threat to the sustainability assurance practitioner's independence.

5410.11 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than the sustainability assurance engagement to the sustainability assurance fee.
- The length of time during which a large proportion of fees for services other than the sustainability assurance engagement to the sustainability assurance fee has existed.
- The nature, scope and purposes of the services other than the sustainability assurance engagement, including:
  - Whether they are recurring services.
  - Whether law or regulation mandates the services to be performed by the firm.

5410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the sustainability assurance engagement or the service other than the sustainability assurance engagement review the relevant sustainability assurance work.

- Reducing the extent of services other than the sustainability assurance engagement provided to the sustainability assurance client.

Total Fees – Overdue Fees

5410.12 A1 The level of the self-interest threat might be impacted if fees payable by a sustainability assurance client for the sustainability assurance engagement or services other than the sustainability assurance engagement are overdue during the period of the sustainability assurance engagement.

5410.12 A2 It is generally expected that the firm will obtain payment of such fees before the sustainability assurance report is issued.

5410.12 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the firm.
- The length of time the fees have been overdue.
- The firm's assessment of the ability and willingness of the sustainability assurance client to pay the overdue fees.

5410.12 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the sustainability assurance engagement review the sustainability assurance work.

R5410.13 When a significant part of the fees due from a sustainability assurance client remains unpaid for a long time, the firm shall determine:

(a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 5511 are applicable; and

(b) Whether it is appropriate for the firm to be re-appointed or continue the sustainability assurance engagement.

Total Fees – Fee Dependency

All Sustainability Assurance Clients

5410.14 A1 When the total fees generated from a sustainability assurance client by the firm expressing the sustainability assurance opinion represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from the sustainability assurance engagement and other services from that client impact the level of the self-interest threat and create an intimidation threat.

5410.14 A2 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

5410.14 A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:

- The operating structure of the firm.
- Whether the firm is expected to diversify such that any dependence on the sustainability assurance client is reduced.

5410.14 A4 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who is not a member of the firm review the sustainability assurance work.
- Reducing the extent of services other than the sustainability assurance engagement provided to the sustainability assurance client.
- Increasing the client base of the firm to reduce dependence on the client.
- Increasing the extent of services provided to other clients.

5410.14 A5 A self-interest or intimidation threat is created when the fees generated by a firm from a sustainability assurance client represent a large proportion of the revenue of one leader or one office of the firm.

5410.14 A6 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the sustainability assurance client to the leader or office.
- The extent to which the compensation of the leader, or the leaders in the office, is dependent upon the fees generated from the client.

5410.14 A7 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the sustainability assurance engagement review the sustainability assurance work.
- Ensuring that the compensation of the leader is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than the sustainability assurance engagement provided by the leader or office to the sustainability assurance client.
- Increasing the client base of the leader or the office to reduce dependence on the client.
- Increasing the extent of services provided by the leader or the office to other clients.

Sustainability Assurance Clients that are Not Public Interest Entities

R5410.15 When for each of five consecutive years total fees from a sustainability assurance client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:

(a) Prior to the assurance opinion being issued on the fifth year's sustainability information, have a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, review the fifth year's sustainability assurance work; or

(b) After the assurance opinion on the fifth year's sustainability information has been issued, and before the assurance opinion is issued on the sixth year's sustainability information, have a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, or a professional body review the fifth year's sustainability assurance work.

R5410.16 If the total fees described in paragraph R5410.15 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R5410.15 applied to the

relevant year's engagement might be a safeguard to address the threats created by the total fees received by the firm from the client, and if so, apply it.

R5410.17 When two or more firms are engaged to conduct a sustainability assurance engagement with respect to the client's sustainability information, the involvement of the other firm in the sustainability assurance engagement may be regarded each year as an action equivalent to that in paragraph R5410.15 (a), if:

(a) The circumstances addressed by paragraph R5410.15 apply to only one of the firms expressing the assurance opinion; and

(b) Each firm performs sufficient work to take full individual responsibility for the assurance opinion.

Sustainability Assurance Clients that are Public Interest Entities

R5410.18 When for each of two consecutive years the total fees from a sustainability assurance client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the assurance opinion being issued on the second year's sustainability information, a review, consistent with the objective of an engagement quality review, performed by a sustainability assurance practitioner who is not a member of the firm expressing the opinion on the sustainability information ("pre-issuance review") might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.

R5410.19 When two or more firms are engaged to conduct a sustainability assurance engagement with respect to the client's sustainability information, the involvement of the other firm in the sustainability assurance engagement may be regarded each year as an action equivalent to that in paragraph R5410.18, if:

(a) The circumstances addressed by paragraph R5410.18 apply to only one of the firms expressing the assurance opinion; and

(b) Each firm performs sufficient work to take full individual responsibility for the assurance opinion.

R5410.20 Subject to paragraph R5410.21, if the circumstances described in paragraph R5410.18 continue for five consecutive years, the firm shall cease to be the sustainability assurance practitioner after the assurance opinion for the fifth year is issued.

R5410.21 As an exception to paragraph R5410.20, the firm may continue to be the sustainability assurance practitioner after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:

(a)

(i) Where there is a designated regulatory or professional body in the relevant jurisdiction, the firm consults with that body and that body concurs that having the firm continue to provide the sustainability assurance service would be in the public interest; or

(ii) Where there is no designated regulatory or professional body in the relevant jurisdiction, the firm consults with and obtains concurrence from those charged with governance of the sustainability assurance client that having the firm continue to provide the sustainability assurance service would be in the public interest; and

(b) Before the assurance opinion on the sixth and any subsequent year's sustainability information is issued, the firm engages a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, to perform a pre-issuance review.

5410.21 A1 A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the sustainability assurance engagement, having regard to the nature and location of the client's business.

Transparency of Information Regarding Fees for Sustainability Assurance Clients that are Public Interest Entities

Communication About Fee-related Information with Those Charged with Governance

5410.22 A1 Communication by the firm of fee-related information (for both the sustainability assurance engagement and services other than the sustainability assurance engagement) with those charged with governance assists in their assessment of the firm's independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of sustainability assurance work and impact on the sustainability assurance fee.

Fees for the Sustainability Assurance Engagement

R5410.23 Subject to paragraph R5410.24, the firm shall communicate in a timely manner with those charged with governance of a sustainability assurance client that is a public interest entity:

(a) Fees paid or payable to the firm or network firms for the sustainability assurance engagement; and

(b) Whether the threats created by the level of those fees are at an acceptable level, and if not, any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

5410.23 A1 The objective of such communication is to provide the background and context to the fees for the sustainability assurance engagement to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
  - The scale, complexity and geographic spread of the sustainability assurance client's operations.
  - The time spent or expected to be spent commensurate with the scope and complexity of the sustainability assurance engagement.
  - The cost of other resources utilised or expended in performing the sustainability assurance engagement.
  - The quality of record keeping and processes for sustainability information preparation.
- Adjustments to the fees quoted or charged during the period of the sustainability assurance engagement, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the sustainability assurance engagement that impacted the fees.

5410.23 A2 The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

R5410.24 As an exception to paragraph R5410.23, the firm may determine not to communicate the information set out in paragraph R5410.23 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

(a) The entity is consolidated into group sustainability information prepared by that other public interest entity; and

(b) The firm or a network firm expresses an opinion on that group sustainability information.

Fees for Other Services

R5410.25 Subject to paragraph R5410.27, the firm shall communicate in a timely manner with those charged with governance of a sustainability assurance client that is a public interest entity:

(a) The fees, other than those disclosed under paragraph R5410.23(a), charged to the client for the provision of services by the firm or a network firm during the reporting period for the engagement. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the sustainability information on which the firm will express an opinion; and

(b) As set out in paragraph 5410.11 A1, where the firm has identified that there is an impact on the level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of fees for services other than the sustainability assurance engagement relative to the sustainability assurance fee:

(i) Whether such threats are at an acceptable level; and

(ii) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

5410.25 A1 The objective of such communication is to provide the background and context to the fees for other services to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees for other services that are required by law or regulation.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees.
- The proportion of fees referred to in paragraph R5410.25(a) to the aggregate of the fees charged by the firm and network firms for the sustainability assurance engagement.

R5410.26 The firm shall include in the communication required by paragraph R5410.25(a) the fees, other than those disclosed under paragraph R5410.23(a), 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.

5410.26 A1 Factors the firm might consider when determining whether the fees, other than those disclosed under paragraph R5410.23(a), charged to such other related entities, individually and in the aggregate, for the provision of services by the firm or a network firm are relevant to the evaluation of the firm's independence include:

- The extent of the sustainability assurance client's involvement in the appointment of the firm or network firm for the provision of such services, including the negotiation of fees.
- The significance of the fees paid by the other related entities to the firm or a network firm.
- The proportion of fees from the other related entities to the fees paid by the client.

R5410.27 As an exception to paragraph R5410.25, the firm may determine not to communicate the information set out in paragraph R5410.25 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

(a) The entity's sustainability information is consolidated into group sustainability information prepared by that other public interest entity; and

(b) The firm or a network firm expresses an opinion on that group sustainability information.

Fee Dependency

R5410.28 Where the total fees from a sustainability assurance client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance:

(a) That fact and whether this situation is likely to continue;

(b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R5410.18); and

(c) Any proposal to continue the sustainability assurance engagement under paragraph R5410.21.

Public Disclosure of Fee-related Information

5410.29 A1 In view of the public interest in the assurance of sustainability information disclosed by public interest entities, it is beneficial for stakeholders to have visibility about the professional relationships between the firm and the sustainability assurance client which might reasonably be thought to be relevant to the evaluation of the firm's independence.

R5410.30 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 paid or payable to the firm and network firms 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 that are not required by laws and regulations in a manner deemed appropriate, 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.

5410.30 A1 Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include:

- Comparative information of the prior year's fees for sustainability assurance and services other than the sustainability assurance engagement.
- The nature of services and their associated fees as disclosed under paragraph R5410.31(b).
- Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.

R5410.31 After the discussion with those charged with governance as set out in paragraph R5410.30, to the extent that the sustainability assurance client that is a public interest entity does not make the relevant disclosure, subject to paragraph R5410.32, 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. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control where the sustainability information of those entities is consolidated in the sustainability information on which the firm will express an opinion;

(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 received by the firm for two consecutive years, and the year that this situation first arose.

5410.31 A1 The firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the firm's independence, such as the examples described in paragraph 5410.30 A1.

5410.31 A2 Factors the firm might consider when making the determination required by paragraph R5410.31(c) are set out in paragraph 5410.26 A1.

5410.31 A3 When disclosing fee-related information in compliance with paragraph R5410.31, the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the firm's website.
- In the firm's transparency report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the sustainability assurance report.

R5410.32 As an exception to paragraph R5410.31, the firm may determine not to publicly disclose the information set out in paragraph R5410.31 relating to:

(a) A parent entity that also prepares group sustainability information provided that the firm or a network firm expresses an opinion on the group sustainability information; or

(b) An entity (directly or indirectly) wholly-owned by another public interest entity provided that:

(i) That entity's sustainability information is consolidated into group sustainability information prepared by that other public interest entity; and

(ii) The firm or a network firm expresses an opinion on that group sustainability information.

[Paragraph R5410.33 is intentionally left blank]

SECTION 5411 COMPENSATION AND EVALUATION POLICIES

Introduction

5411.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5411.2 A firm's evaluation or compensation policies might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

5411.3 A1 When a sustainability assurance team member for a particular sustainability assurance client is evaluated on or compensated for selling non-assurance services to that sustainability assurance client, the level of the self-interest threat will depend on:

(a) What proportion of the compensation or evaluation is based on the sale of such services;

(b) The role of the individual on the sustainability assurance team; and

(c) Whether the sale of such non-assurance services influences promotion decisions.

5411.3 A2 Examples of actions that might eliminate such a self-interest threat include:

- Revising the compensation plan or evaluation process for that individual.
- Removing that individual from the sustainability assurance team.

5411.3 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.

R5411.4 A firm shall not evaluate or compensate a key sustainability assurance leader based on that leader's success in selling non-assurance services to the leader's sustainability assurance client. This requirement does not preclude normal profit-sharing arrangements between leaders of a firm.

SECTION 5420 GIFTS AND HOSPITALITY

Introduction

5420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5420.2 Accepting gifts and hospitality from a sustainability assurance client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

Requirement and Application Material

R5420.3 A firm, network firm or a sustainability assurance team member shall not accept gifts and hospitality from a sustainability assurance client, unless the value is trivial and inconsequential.

5420.3 A1 Where a firm, network firm or sustainability assurance team member is offering or accepting an inducement to or from a sustainability assurance client, the requirements and application material set out in Section 5340 apply and non-compliance with these requirements might create threats to independence.

5420.3 A2 The requirements set out in Section 5340 relating to offering or accepting inducements do not allow a firm, network firm or sustainability assurance team member to accept gifts and hospitality where the intent is to improperly influence behaviour even if the value is trivial and inconsequential.

SECTION 5430 ACTUAL OR THREATENED LITIGATION

Introduction

5430.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5430.2 When litigation with a sustainability assurance client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

Application Material

General

5430.3 A1 The relationship between client management and sustainability assurance team members must be characterised by complete candour and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between a sustainability assurance client and the firm, a network firm or a sustainability assurance team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.

5430.3 A2 Factors that are relevant in evaluating the level of such threats include:

- The materiality of the litigation.
- Whether the litigation relates to a prior sustainability assurance engagement.

5430.3 A3 If the litigation involves a sustainability assurance team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the sustainability assurance team.

5430.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is to have an appropriate reviewer review the work performed.

SECTION 5510 FINANCIAL INTERESTS

Introduction

5510.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5510.2 Holding a financial interest in a sustainability assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

5510.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.

5510.3 A2 This section contains references to the "materiality" of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

5510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in a sustainability assurance client include:

- The role of the individual holding the financial interest.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest.

Financial Interests in a Sustainability Assurance Client Held by the Firm, a Network Firm, Sustainability Assurance Team Members and Others

R5510.4 Subject to paragraph R5510.5, a direct financial interest or a material indirect financial interest in the sustainability assurance client shall not be held by:

(a) The firm or a network firm;

(b) A sustainability assurance team member, or any of that individual's immediate family;

(c) Any other leader in the office in which an engagement leader practices in connection with the sustainability assurance engagement, or any of that other leader's immediate family; or

(d) Any other leader or managerial employee who provides services other than sustainability assurance to the sustainability assurance client, except for any whose involvement is minimal, or any of that individual's immediate family.

5510.4 A1 The office in which the engagement leader practices in connection with a sustainability assurance engagement is not necessarily the office to which that engagement leader is assigned. When the engagement leader is located in a different office from that of the other sustainability assurance team members, professional judgement is needed to

determine the office in which the engagement leader practices in connection with the engagement.

R5510.5 As an exception to paragraph R5510.4, an immediate family member identified in subparagraphs R5510.4(c) or (d) may hold a direct or material indirect financial interest in a sustainability assurance client, provided that:

(a) The family member received the financial interest because of employment rights, for example through pension or share option plans, and, when necessary, the firm addresses the threat created by the financial interest; and

(b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

Financial Interests in an Entity Controlling a Sustainability Assurance Client

R5510.6 When an entity has a controlling interest in a sustainability assurance client and the client is material to the entity, neither the firm, nor a network firm, nor a sustainability assurance team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Financial Interests in a Sustainability Assurance Client Held as Trustee

R5510.7 Paragraph R5510.4 shall also apply to a financial interest in a sustainability assurance client held in a trust for which the firm, network firm or individual acts as trustee, unless:

(a) None of the following is a beneficiary of the trust: the trustee, the sustainability assurance team member or any of that individual's immediate family, the firm or a network firm;

(b) The interest in the sustainability assurance client held by the trust is not material to the trust;

(c) The trust is not able to exercise significant influence over the sustainability assurance client; and

(d) None of the following can significantly influence any investment decision involving a financial interest in the sustainability assurance client: the trustee, the sustainability assurance team member or any of that individual's immediate family, the firm or a network firm.

Financial Interests in Common with the Sustainability Assurance Client

R5510.8 **(a)** A firm, or a network firm, or a sustainability assurance team member, or any of that individual's immediate family shall not hold a financial interest in an entity when a sustainability assurance client also has a financial interest in that entity, unless:

(i) The financial interests are immaterial to the firm, the network firm, the sustainability assurance team member and that individual's immediate family member and the sustainability assurance client, as applicable; or

(ii) The sustainability assurance client cannot exercise significant influence over the entity.

(b) Before an individual who has a financial interest described in paragraph R5510.8(a) can become a sustainability assurance team member, the individual or that individual's immediate family member shall either:

(i) Dispose of the interest; or

(ii) Dispose of enough of the interest so that the remaining interest is no longer material.

Financial Interests in a Sustainability Assurance Client Received Unintentionally

R5510.9 If a firm, a network firm or a leader or employee of the firm or a network firm, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in a sustainability assurance client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

(a) If the interest is received by the firm or a network firm, or a sustainability assurance team member or any of that individual's immediate family, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or

(b) **(i)** If the interest is received by an individual who is not a sustainability assurance team member, or by any of that individual's immediate family, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and

(ii) Pending the disposal of the financial interest, when necessary the firm shall address the threat created.

Financial Interests – Other Circumstances

Immediate Family

5510.10 A1 A self-interest, familiarity, or intimidation threat might be created if a sustainability assurance team member, or any of that individual's immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the sustainability assurance client is also known to have a financial interest in that entity.

5510.10 A2 Factors that are relevant in evaluating the level of such threats include:

- The role of the individual on the sustainability assurance team.
- Whether ownership of the entity is closely or widely held.

- Whether the interest allows the investor to control or significantly influence the entity.
- The materiality of the financial interest.

5510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the sustainability assurance team member with the financial interest from the sustainability assurance team.

5510.10 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.

Close Family

5510.10 A5 A self-interest threat might be created if a sustainability assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the sustainability assurance client.

5510.10 A6 Factors that are relevant in evaluating the level of such a threat include:

- The nature of the relationship between the sustainability assurance team member and the close family member.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest to the close family member.

5510.10 A7 Examples of actions that might eliminate such a self-interest threat include:

- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
- Removing the individual from the sustainability assurance team.

5510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.

Other Individuals

5510.10 A9 A self-interest threat might be created if a sustainability assurance team member knows that a financial interest in the sustainability assurance client is held by individuals such as:

- Leaders and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R5510.4, or their immediate family members.
- Individuals with a close personal relationship with a sustainability assurance team member.

5510.10 A10 Factors that are relevant in evaluating the level of such a threat include:

- The firm's organisational, operating and reporting structure.
- The nature of the relationship between the individual and the sustainability assurance team member.

5510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the sustainability assurance team member with the personal relationship from the sustainability assurance team.

5510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:

- Excluding the sustainability assurance team member from any significant decision-making concerning the sustainability assurance engagement.
- Having an appropriate reviewer review the work of the sustainability assurance team member.

Retirement Benefit Plan of a Firm or Network Firm

5510.10 A13 A self-interest threat might be created if a retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in a sustainability assurance client.

SECTION 5511 LOANS AND GUARANTEES

Introduction

5511.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5511.2 A loan or a guarantee of a loan with a sustainability assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

5511.3 A1 This section contains references to the "materiality" of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Loans and Guarantees with a Sustainability Assurance Client

R5511.4 A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not make or guarantee a loan to a sustainability assurance client unless the loan or guarantee is immaterial to:

(a) The firm, the network firm or the individual making the loan or guarantee, as applicable; and

(b) The client.

Loans and Guarantees with a Sustainability Assurance Client that is a Bank or Similar Institution

R5511.5 A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from a sustainability assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

5511.5 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.

5511.5 A2 Even if a firm or network firm receives a loan from a sustainability assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the sustainability assurance client or firm receiving the loan.

5511.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not a sustainability assurance team member, from a network firm that is not a beneficiary of the loan.

Deposits or Brokerage Accounts

R5511.6 A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not have deposits or a brokerage account with a sustainability assurance client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

Loans and Guarantees with a Sustainability Assurance Client that is Not a Bank or Similar Institution

R5511.7 A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not accept a loan from, or have a borrowing guaranteed by, a sustainability assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to:

(a) The firm, the network firm, or the individual receiving the loan or guarantee, as applicable; and

(b) The client.

SECTION 5520 BUSINESS RELATIONSHIPS

Introduction

5520.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5520.2 A close business relationship with a sustainability assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

5520.3 A1 This section contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

5520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
- Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
- Arrangements under which the firm or a network firm sells, resells, distributes or markets the client's products or services, or the client sells, resells, distributes or markets the firm's or a network firm's products or services.
- Arrangements under which the firm or network firm develops jointly with the client, products or services which one or both parties sell or license to third parties.

5520.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the firm or a network firm licenses products or solutions to or from a client.

Firm, Network Firm, Sustainability Assurance Team Member or Immediate Family Business Relationships with a Sustainability Assurance Client

R5520.4 A firm, a network firm or a sustainability assurance team member shall not have a close business relationship with a sustainability assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the sustainability assurance team member, as applicable.

5520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the sustainability assurance client or its management and the immediate family of a sustainability assurance team member.

Common Interests in Closely-Held Entities

R5520.5 A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when a sustainability assurance client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

(a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;

(b) The financial interest is immaterial to the investor or group of investors; and

(c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

Buying Goods or Services

5520.6 A1 The purchase of goods and services, including the licensing of technology, from a sustainability assurance client by a firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

5520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the sustainability assurance team.

Providing, Selling, Reselling or Licensing Technology

5520.7 A1 Where a firm or a network firm provides, sells, resells or licenses technology:

(a) To a sustainability assurance client; or

(b) To an entity that provides services using such technology to sustainability assurance clients of the firm or network firm,

depending on the facts and circumstances, the requirements and application material in Section 5600 apply.

SECTION 5521 FAMILY AND PERSONAL RELATIONSHIPS

Introduction

5521.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5521.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

5521.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between a sustainability assurance team member and a director or officer or, depending on their role, certain employees of the sustainability assurance client.

5521.3 A2 Factors that are relevant in evaluating the level of such threats include:

- The individual's responsibilities on the sustainability assurance team.
- The role of the family member or other individual within the client, and the closeness of the relationship.

Immediate Family of a Sustainability Assurance Team Member

5521.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of a sustainability assurance team member is an employee in a position to exert significant influence over the client's sustainability information on which the firm will express an opinion.

5521.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position held by the immediate family member.
- The role of the sustainability assurance team member.

5521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.

5521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the immediate family member.

R5521.5 An individual shall not participate as a sustainability assurance team member when any of that individual's immediate family:

(a) Is a director or officer of the sustainability assurance client;

(b) Is an employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information; or

(c) Was in such position during any period covered by the engagement or the reporting period for the engagement.

Close Family of a Sustainability Assurance Team Member

5521.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of a sustainability assurance team member is:

(a) A director or officer of the sustainability assurance client; or

(b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

5521.6 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the relationship between the sustainability assurance team member and the close family member.
- The position held by the close family member.
- The role of the sustainability assurance team member.

5521.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.

5521.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the close family member.

Other Close Relationships of a Sustainability Assurance Team Member

R5521.7 A sustainability assurance team member shall consult in accordance with firm policies and procedures if the sustainability assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:

(a) A director or officer of the sustainability assurance client; or

(b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

5521.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the individual and the sustainability assurance team member.
- The position the individual holds with the client.
- The role of the sustainability assurance team member.

5521.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.

5521.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the individual with whom the sustainability assurance team member has a close relationship.

Relationships of Leaders and Employees of the Firm

R5521.8 Leaders and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

(a) A leader or employee of the firm or network firm who is not a sustainability assurance team member; and

(b) A director or officer of the sustainability assurance client or an employee of the sustainability assurance client in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

5521.8 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the leader or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the leader or employee of the firm with the sustainability assurance team.
- The position of the leader or employee within the firm.
- The position the individual holds with the client.

5521.8 A2 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the leader's or employee's responsibilities to reduce any potential influence over the sustainability assurance engagement.
- Having an appropriate reviewer review the relevant sustainability assurance work performed.

SECTION 5522 RECENT SERVICE WITH A SUSTAINABILITY ASSURANCE CLIENT

Introduction

5522.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5522.2 If a sustainability assurance team member has recently served as a director or officer, or employee of the sustainability assurance client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service During Period Covered by the Sustainability Assurance Report

R5522.3 The sustainability assurance team shall not include an individual who, during the period covered by the sustainability assurance report:

(a) Had served as a director or officer of the sustainability assurance client; or

(b) Was an employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

Service Prior to Period Covered by the Sustainability Assurance Report

5522.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the sustainability assurance report, a sustainability assurance team member:

(a) Had served as a director or officer of the sustainability assurance client; or

(b) Was an employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current sustainability assurance engagement.

5522.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the sustainability assurance team member.

5522.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the sustainability assurance team member.

SECTION 5523 SERVING AS A DIRECTOR OR OFFICER OF A SUSTAINABILITY ASSURANCE CLIENT

Introduction

5523.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5523.2 Serving as a director or officer of a sustainability assurance client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Service as Director or Officer

R5523.3 [Amended by the NZAuASB. Refer to NZ R5523.3.1]

NZ R5523.3.1 A partner or employee of the firm or a network firm shall not serve as a director, officer, liquidator or receiver of a sustainability assurance client of the firm.

Service as Company Secretary

R5523.4 A leader or employee of the firm or a network firm shall not serve as Company Secretary for a sustainability assurance client of the firm, unless:

(a) This practice is specifically permitted under local law, professional rules or practice;

(b) Management makes all relevant decisions; and

(c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

5523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a leader or employee of the firm or a network firm serves as Company Secretary for a sustainability assurance client. (More information on providing non-assurance services to a sustainability assurance client is set out in Section 5600, Provision of Non-assurance Services to a Sustainability Assurance Client.)

SECTION 5524 EMPLOYMENT WITH A SUSTAINABILITY ASSURANCE CLIENT

Introduction

5524.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5524.2 Employment relationships with a sustainability assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

All Sustainability Assurance Clients

5524.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been a sustainability assurance team member or leader of the firm or a network firm:

- A director or officer of the sustainability assurance client.
- An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

Former Leader or Sustainability Assurance Team Member Restrictions

R5524.4 The firm shall ensure that no significant connection remains between the firm or a network firm and:

(a) A former leader who has joined a sustainability assurance client of the firm; or

(b) A former sustainability assurance team member who has joined the sustainability assurance client, if either has joined the sustainability assurance client as:

(i) A director or officer; or

(ii) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information.

A significant connection remains between the firm or a network firm and the individual, unless:

(a) The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;

(b) Any amount owed to the individual is not material to the firm or the network firm; and

(c) The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.

5524.4 A1 Even if the requirements of paragraph R5524.4 are met, a familiarity or intimidation threat might still be created.

5524.4 A2 A familiarity or intimidation threat might also be created if a former leader of the firm or network firm has joined an entity in one of the positions described in paragraph 5524.3 A1 and the entity subsequently becomes a sustainability assurance client of the firm.

5524.4 A3 Factors that are relevant in evaluating the level of such threats include:

- The position the individual has taken at the client.
- Any involvement the individual will have with the sustainability assurance team.
- The length of time since the individual was a sustainability assurance team member or leader of the firm or network firm.
- The former position of the individual within the sustainability assurance team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

5524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:

- Modifying the plan for the sustainability assurance engagement.
- Assigning to the sustainability assurance team individuals who have sufficient experience relative to the individual who has joined the client.
- Having an appropriate reviewer review the work of the former sustainability assurance team member.

Sustainability Assurance Team Members Entering Employment with a Client

R5524.5 A firm or network firm shall have policies and procedures that require sustainability assurance team members to notify the firm or network firm when entering employment negotiations with a sustainability assurance client.

5524.5 A1 A self-interest threat is created when a sustainability assurance team member participates in the sustainability assurance engagement while knowing that the sustainability assurance team member will, or might, join the client at some time in the future.

5524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the sustainability assurance team.

5524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgements made by that individual while on the team.

Sustainability Assurance Clients that are Public Interest Entities

Key Sustainability Assurance Leaders

R5524.6 Subject to paragraph R5524.8, if an individual who was a key sustainability assurance leader with respect to a sustainability assurance client that is a public interest entity joins the client as:

(a) A director or officer; or

(b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information,

independence is compromised unless, subsequent to the individual ceasing to be a key sustainability assurance leader:

(i) The sustainability assurance client has issued assured sustainability information covering a period of not less than twelve months; and

(ii) The individual was not a sustainability assurance team member with respect to the assurance of that sustainability information.

Chief Executive or Equivalent of the Firm

R5524.7 Subject to paragraph R5524.8, if an individual who was the Chief Executive or equivalent of the firm joins a sustainability assurance client that is a public interest entity as:

(a) A director or officer; or

(b) An employee in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion, or the records underlying that information,

independence is compromised, unless twelve months have passed since the individual was the Chief Executive or equivalent of the firm.

Business Combinations

R5524.8 As an exception to paragraphs R5524.6 and R5524.7, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

(a) The position was not taken in contemplation of the business combination;

(b) Any benefits or payments due to the former key sustainability assurance leader or Chief Executive from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the key sustainability assurance leader or Chief Executive is not material to the firm or network firm as applicable;

(c) The former key sustainability assurance leader or Chief Executive does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and

(d) The firm discusses the former key sustainability assurance leader's or Chief Executive's position held with the sustainability assurance client with those charged with governance.

SECTION 5525 TEMPORARY PERSONNEL ASSIGNMENTS

Introduction

5525.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5525.2 The loan of personnel to a sustainability assurance client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

5525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to a sustainability assurance client include:

- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.

- Not including the loaned personnel as a sustainability assurance team member might address a familiarity or advocacy threat.
- Not giving the loaned personnel sustainability assurance responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.

5525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to a sustainability assurance client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.

R5525.4 A firm or network firm shall not loan personnel to a sustainability assurance client unless the firm or network firm is satisfied that:

(a) Such assistance is provided only for a short period of time;

(b) Such personnel will not assume management responsibilities and the sustainability assurance client will be responsible for directing and supervising the activities of the personnel;

(c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and

(d) Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.

SECTION 5540 LONG ASSOCIATION OF PERSONNEL (INCLUDING LEADER ROTATION) WITH A SUSTAINABILITY ASSURANCE CLIENT

Introduction

5540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5540.2 When an individual is involved in a sustainability assurance engagement, or a combination of sustainability assurance and audit engagements for the same client, over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

[Paragraph 5540.3 A1 is intentionally left blank]

All Sustainability Assurance Clients

5540.4 A1 Although an understanding of a sustainability assurance client and its environment is fundamental to assurance quality, a familiarity threat might be created as a result of an individual's long association as a sustainability assurance team member or audit team member with:

(a) The sustainability assurance client and its operations;

(b) The sustainability assurance client's senior management; or

(c) The sustainability information on which the firm will express an opinion or the financial or non-financial information which forms the basis of the sustainability information.

5540.4 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgement inappropriately.

5540.4 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:

(a) In relation to the individual:

- The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
- How long the individual has been an engagement team member for the sustainability assurance engagement or the audit engagement, and the nature of the roles performed.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the sustainability assurance engagement, for example, by making key decisions or directing the work of other engagement team members.

- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) In relation to the sustainability assurance client:

- The nature or complexity of the client's sustainability reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organisation which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

5540.4 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

5540.4 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in a sustainability assurance engagement, or a combination of sustainability assurance and audit engagements for the same client, over a long period of time would be rotating the individual off the sustainability assurance team.

5540.4 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the sustainability assurance team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not a sustainability assurance team member review the work of the individual.
- Performing regular independent internal, or external, quality reviews of the engagement.

R5540.5 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the sustainability assurance team, the firm shall determine an appropriate period during which the individual shall not:

(a) Be a member of the engagement team for the sustainability assurance engagement;

(b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or

(c) Exert direct influence on the outcome of the sustainability assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R5540.7 to R5540.23 also apply.

R5540.6 Where an individual is a member of both the sustainability assurance team and the audit team for the same client and the firm decides that the level of the threats created can only be addressed by rotating the individual off both the sustainability assurance team and the

audit team, the firm shall, in addition to complying with paragraph R5540.5, determine an appropriate period during which the individual shall not:

(a) Be a member of the engagement team for the audit engagement;

(b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the audit engagement; or

(c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R5540.7 to R5540.23 also apply.

Sustainability Assurance Clients that are Public Interest Entities

R5540.7 Subject to paragraphs R5540.9 to R5540.11, in respect of a sustainability assurance engagement of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the "time-on" period):

(a) The engagement leader;

(b) The individual appointed as responsible for performing the engagement quality review;

(c) Any other key sustainability assurance leader role; or

(d) A key audit partner.

After the time-on period, the individual shall serve a "cooling-off" period in accordance with the provisions in paragraphs R5540.13 to R5540.21.

R5540.8 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R5540.7(a) to (d) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R5540.13 to R5540.15 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

5540.8 A1 For example:

- An individual who served as engagement leader for four years followed by three years off can
- only act thereafter as a key sustainability assurance leader on the same sustainability assurance engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R5540.17.
- An individual who served as engagement partner for two years for the audit of the sustainability assurance client's financial statements might be appointed as the individual responsible for performing the engagement quality review for the sustainability assurance engagement for five further years. Thereafter, that individual is required to cool off in accordance with paragraph R5540.18.

R5540.9 As an exception to paragraph R5540.7, key sustainability assurance leaders whose continuity is especially important to assurance quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key sustainability

assurance leader as long as the threat to independence can be eliminated or reduced to an acceptable level.

5540.9 A1 For example, a key sustainability assurance leader may remain in that role on the sustainability assurance team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement leader. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R5540.10 If a sustainability assurance client becomes a public interest entity, a firm shall take into account the length of time an individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in the capacity of a key sustainability assurance leader before rotating off the sustainability assurance engagement is seven years less the number of years already served. As an exception to paragraph R5540.7, if the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in the capacity of a key sustainability assurance leader with the concurrence of those charged with governance for a maximum of two additional years before rotating off the sustainability assurance engagement.

R5540.10a If a firm has previously performed sustainability assurance engagements for a sustainability assurance client that is a public interest entity and these engagements were not within the scope of the *International Independence Standards (New Zealand)* in this Part, the firm shall take into account the length of time an individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner before the firm begins to undertake sustainability assurance engagements within the scope of the *International Independence Standards (New Zealand)* in this Part in determining the timing of the rotation. If the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of five cumulative years or less when the firm first undertakes a sustainability assurance engagement within the scope of the *International Independence Standards (New Zealand)* in this Part, the number of years the individual may continue to serve the client in the capacity of a key sustainability assurance leader before rotating off the sustainability assurance engagement is seven years less the number of years already served. As an exception to paragraph R5540.7, if the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of six or more cumulative years before the firm first undertakes a sustainability assurance engagement within the scope of the *International Independence Standards (New Zealand)* in this Part, the individual may continue to serve in the capacity of a key sustainability assurance leader with the concurrence of those charged with governance for a maximum of two additional years before rotating off the sustainability assurance engagement.

R5540.11 When a firm has only a few people with the necessary knowledge and experience to serve as a key sustainability assurance leader on the sustainability assurance engagement of a public interest entity, rotation of key sustainability assurance leaders might not be

possible. As an exception to paragraph R5540.7, if an independent regulatory body in the relevant jurisdiction has provided an exemption from leader rotation in such circumstances, an individual may remain a key sustainability assurance leader for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key sustainability assurance leader may be exempted from rotation or a regular independent external review.

Other Considerations Relating to the Time-on Period

R5540.12 In evaluating the threats created by an individual's long association with a sustainability assurance engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the sustainability assurance engagement or the audit engagement for the same client prior to the individual becoming a key sustainability assurance leader.

5540.12 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key sustainability assurance leader to continue in that role even though the length of time served as a key sustainability assurance leader is less than seven years.

Cooling-off Period

R5540.13 If the individual acted as the engagement leader for seven cumulative years, the cooling-off period shall be five consecutive years.

R5540.14 Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

R5540.15 If the individual has acted as a key sustainability assurance leader other than in the capacities set out in paragraphs R5540.13 and R5540.14 for seven cumulative years, the cooling-off period shall be two consecutive years.

5540.16 A1 The leader rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by Professional and Ethical Standard 4 as a condition for eligibility before the engagement leader can assume the role of engagement quality reviewer (see paragraph 5325.8 A4).

Service in a combination of key sustainability assurance leader or key audit partner roles

R5540.17 If the individual acted in a combination of key sustainability assurance leader or key audit partner roles and served as the engagement leader or engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

R5540.18 Subject to paragraph R5540.19(a), if the individual acted in a combination of key sustainability assurance leader or key audit partner roles and served as the key sustainability assurance leader or key audit partner responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.

R5540.19 If an individual has acted in a combination of engagement leader, engagement partner and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:

(a) As an exception to paragraph R5540.18, be five consecutive years where the individual has been the engagement leader or engagement partner for three or more years; or

(b) Be three consecutive years in the case of any other combination.

R5540.20 If the individual acted in any combination of key sustainability assurance leader and key audit partner roles other than those addressed in paragraphs R5540.17 to R5540.19, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

R5540.21 In determining the number of years that an individual has been a key sustainability assurance leader or a key audit partner as set out in paragraph R5540.7, the length of the relationship shall, where relevant, include time while the individual was a key sustainability assurance leader on the sustainability assurance engagement or a key audit partner on the audit engagement for the same client at a prior firm.

[Paragraph R5540.22 is intentionally left blank]

Restrictions on Activities During the Cooling-off Period

R5540.23 For the duration of the relevant cooling-off period, the individual shall not:

(a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the sustainability assurance engagement or the audit engagement;

(b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the sustainability assurance engagement or the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the sustainability assurance engagement or the audit engagement);

(c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the sustainability assurance client, or overseeing the relationship of the firm or a network firm with the sustainability assurance client; or

(d) Undertake any other role or activity not referred to above with respect to the sustainability assurance client, including the provision of non-assurance services, that would result in the individual:

(i) Having significant or frequent interaction with senior management or those charged with governance; or

(ii) Exerting direct influence on the outcome of the sustainability assurance engagement or the audit engagement.

5540.23 A1 The provisions of paragraph R5540.23 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Chief Executive or equivalent.

SECTION 5600 PROVISION OF NON-ASSURANCE SERVICES TO A SUSTAINABILITY ASSURANCE CLIENT

Introduction

5600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5600.2 Firms and network firms might provide a range of non-assurance services to their sustainability assurance clients, consistent with their expertise. Providing non-assurance services to sustainability assurance clients might create threats to compliance with the fundamental principles and threats to independence.

5600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to sustainability assurance clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to sustainability assurance clients and indicate the types of threats that might be created as a result.

5600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to a sustainability assurance client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.

5600.5 New business practices, the developing sustainability landscape, the evolution of financial markets and sustainability reporting, and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to a sustainability assurance client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.

5600.5a The requirements and application material in this section apply where a firm or a network firm provides non-assurance services to a sustainability assurance client and:

(a) The results of the services will affect, or there is a risk that they will affect, the sustainability information on which the firm will express an assurance opinion, the records underlying that information, or the internal controls over sustainability reporting; or

(b) The services might create an advocacy, self-interest, familiarity or intimidation threat.

5600.6 Circumstances involving non-assurance services that might affect the sustainability information on which the firm will express an assurance opinion or the records underlying that information, include where a firm or network firm:

(a) Uses technology to provide a non-assurance service to a sustainability assurance client; or

(b) Provides, sells, resells or licenses technology resulting in the provision of a non-assurance service by the firm or a network firm:

(i) To a sustainability assurance client; or

(ii) To an entity that provides services using such technology to sustainability assurance clients of the firm or network firm.

5600.6a Where the firm is also the entity's auditor, the requirements and application material in Section 600 apply with respect to identifying, evaluating and addressing threats to the firm's independence, in relation to the audit engagement, that might be created by the provision of non-assurance services to the audit client. A non-assurance service related to sustainability information that does not affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will

express an opinion does not create a self-review or advocacy threat to independence for the audit. However, such a service might create threats to independence in relation to performing a sustainability assurance engagement for the same client where the provision of that service affects the sustainability information on which the firm will express an opinion, the records underlying that information, or the internal controls over sustainability reporting.

Requirements and Application Material

General

Non-Assurance Services Provisions in Laws or Regulations

5600.7 A1 Paragraphs R5100.6 to 5100.7 A1 set out requirements and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to sustainability assurance clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions.

Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service

5600.8 A1 When a firm or a network firm provides a non-assurance service to a sustainability assurance client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R5400.21 have been complied with.

Accepting an Engagement to Provide a Non-Assurance Service

R5600.9 Before a firm or a network firm accepts an engagement to provide a non-assurance service to a sustainability assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

Identifying and Evaluating Threats

All Sustainability Assurance Clients

5600.10 A1 A description of the categories of threats that might arise when a firm or a network firm provides a non-assurance service to a sustainability assurance client is set out in paragraph 5120.6 A3.

5600.10 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to a sustainability assurance client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.

- The extent to which the client determines significant matters of judgement. (Ref: Para. R5400.20 to R5400.21).
- Whether the outcome of the service will affect the matters reflected in the sustainability information on which the firm will express an opinion or the records underlying that information, and, if so:
  - The extent to which the outcome of the service will have a material effect on the sustainability information.
  - The degree of subjectivity involved in determining the appropriate amounts, disclosures or treatment for those matters reflected in the sustainability information.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
  - Sustainability information on which the firm will express an opinion or the records underlying that information.
  - Internal controls over sustainability reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the sustainability assurance engagement.
- The fee relating to the provision of the non-assurance service.

5600.10 A3 Subsections 5601 to 5610 include examples of additional factors that are relevant in identifying threats to independence created by providing certain non-assurance services and evaluating the level of such threats.

Materiality in relation to sustainability information

5600.11 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to a sustainability assurance client. Subsections 5601 to 5610 refer to materiality in relation to a sustainability assurance client's sustainability information on which the firm will express an opinion. The concept of materiality in relation to sustainability assurance engagement is addressed in the relevant reporting and assurance frameworks. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the sustainability information needs of users. The applicable reporting and assurance frameworks might include principles or guidance to assist the sustainability assurance client in identifying information that might be material to users.

5600.11 A2 Where the Code expressly prohibits the provision of a non-assurance service to a sustainability assurance client, a firm or a network firm is not permitted to provide that service, regardless of the materiality of the outcome or results of the non-assurance service on the sustainability information on which the firm will express an opinion.

Providing advice and recommendations

5600.12 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph R5600.15. Where the sustainability assurance client is not a public interest entity and a self-review threat is identified, the firm is required to apply the conceptual framework to evaluate and address the threat. If the sustainability assurance client is a public interest entity, paragraphs R5600.17 and R5600.18 apply.

Multiple non-assurance services provided to the same sustainability assurance client

R5600.13 When a firm or a network firm provides multiple non-assurance services to a sustainability assurance client, the firm shall consider whether, in addition to the threats created by each service individually, the combined effect of such services creates or impacts threats to independence.

5600.13 A1 In addition to paragraph 5600.10 A2, factors that are relevant in a firm's evaluation of the level of threats to independence created where multiple non-assurance services are provided to a sustainability assurance client might include whether:

- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.
- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the sustainability assurance client.

5600.13 A2 When the sustainability assurance practitioner is also the auditor, paragraphs R600.13 and 600.13 A1 in Part 4A apply in relation to multiple non-assurance services provided to the same client.

Self-review threats

5600.14 A1 When a firm or a network firm provides a non-assurance service to a sustainability assurance client, there might be a risk of the firm carrying out assurance procedures on its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgement made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the sustainability assurance team will rely when forming a judgement as part of a sustainability assurance engagement.

R5600.15 Before providing a non-assurance service to a sustainability assurance client, a firm or a network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

(a) The results of the service will form part of or affect the sustainability information on which the firm will express an opinion, the records underlying that information, or the internal controls over sustainability reporting; and

(b) In the course of performing assurance work on the sustainability information on which the firm will express an opinion, the sustainability assurance team will evaluate or rely on any judgements made or activities performed by the firm or network firm when providing the service.

Sustainability Assurance Clients that are Public Interest Entities

5600.16 A1 When the sustainability assurance client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to a sustainability assurance client that is a public interest entity.

5600.16 A2 Where the provision of a non-assurance service to a sustainability assurance client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

Self-review threats

R5600.17 A firm or a network firm shall not provide a non-assurance service to a sustainability assurance client that is a public interest entity if the provision of that service might create a self-review threat in relation to the assurance work on the sustainability information on which the firm will express an opinion. (Ref: Para. 5600.14 A1 and R5600.15).

Providing advice and recommendations

R5600.18 As an exception to paragraph R5600.17, a firm or a network firm may provide advice and recommendations to a sustainability assurance client that is a public interest entity in relation to information or matters arising in the course of a sustainability assurance engagement provided that the firm:

(a) Does not assume a management responsibility (Ref: Para. R5400.20 and R5400.21); and

(b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

5600.18 A1 Examples of advice and recommendations that might be provided in relation to information or matters arising in the course of a sustainability assurance engagement include:

- Advising on sustainability reporting standards or policies and sustainability information disclosure requirements.
- Advising on the appropriateness of controls related to sustainability information and the methods used in determining or establishing the sustainability information to be reported.
- Proposing an adjustment to sustainability information arising from the sustainability assurance engagement findings.
- Discussing findings on internal controls over sustainability reporting and processes and recommending improvements.
- Advising on compliance with group sustainability reporting policies.

Addressing Threats

All Sustainability Assurance Clients

5600.19 A1 Paragraphs R5120.10 to 5120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

5600.19 A2 Threats to independence created by providing a non-assurance service or multiple services to a sustainability assurance client vary depending on the facts and circumstances of the sustainability assurance engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

5600.19 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.

- Obtaining pre-clearance of the outcome of the service from an appropriate authority (for example, a tax authority).

5600.19 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to a sustainability assurance client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm or network firm to:

(a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threats;

(b) Decline or end the service that creates the threats that cannot be eliminated or reduced to an acceptable level; or

(c) End the sustainability assurance engagement.

Communication with Those Charged With Governance Regarding Non-Assurance Services

All Sustainability Assurance Clients

5600.20 A1 Paragraphs 5400.40 A1 and 5400.40 A2 are relevant to a firm's communication with those charged with governance in relation to the provision of non-assurance services.

Sustainability Assurance Clients that are Public Interest Entities

5600.21 A1 Paragraphs R5600.22 to R5600.24 require a firm to communicate with those charged with governance of a public interest entity before the firm or network firm provides non-assurance services to entities within the corporate structure of which the public interest entity forms part that might create threats to the firm's independence from the public interest entity. The purpose of the communication is to enable those charged with governance of the public interest entity to have effective oversight of the independence of the firm that assures the sustainability information of that public interest entity.

5600.21 A2 To facilitate compliance with such requirements, a firm might agree with those charged with governance of the public interest entity a process that addresses when and with whom the firm is to communicate. Such a process might:

- Establish the procedure for the provision of information about a proposed non-assurance service which might be on an individual engagement basis, under a general policy, or on any other agreed basis.
- Identify the entities to which the process would apply, which might include other public interest entities within the corporate structure.
- Identify any services that can be provided to the entities identified in paragraph R5600.22 without specific approval of those charged with governance if they agree as a general policy that these services are not prohibited under this section and would not create threats to the firm's independence or, if any such threats are created, they would be at an acceptable level.
- Establish how those charged with governance of multiple public interest entities within the same corporate structure have determined that authority for approving services is to be allocated.
- Establish a procedure to be followed where the provision of information necessary for those charged with governance to evaluate whether a proposed service might create a threat to the firm's independence is prohibited or limited by professional standards, laws or regulations, or might result in the disclosure of sensitive or confidential information.

- Specify how any issues not covered by the process might be resolved.

R5600.22 Before a firm that undertakes assurance work on the sustainability information of a public interest entity or a network firm accepts an engagement to provide a non-assurance service to:

(A) That public interest entity;

(B) Any entity that controls, directly or indirectly, that public interest entity; or

(C) Any entity that is controlled directly or indirectly by that public interest entity,

the firm shall, unless already addressed when establishing a process agreed with those charged with governance:

(a) Inform those charged with governance of the public interest entity that the firm has determined that the provision of the service:

(i) Is not prohibited; and

(ii) Will not create a threat to the firm's independence as sustainability assurance practitioner of the public interest entity or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and

(b) Provide those charged with governance of the public interest entity with information to enable them to make an informed assessment about the impact of the provision of the service on the firm's independence.

5600.22 A1 Examples of information that might be provided to those charged with governance of the public interest entity in relation to a particular non-assurance service include:

- The nature and scope of the service to be provided.
- The basis and amount of the proposed fee.
- Where the firm has identified any threats to independence that might be created by the provision of the proposed service, the basis for the firm's assessment that the threats are at an acceptable level or, if not, the actions the firm or network firm will take to eliminate or reduce any threats to independence to an acceptable level.
- Whether the combined effect of providing multiple services creates threats to independence or changes the level of previously identified threats.

R5600.23 A firm or a network firm shall not provide a non-assurance service to any of the entities referred to in paragraph R5600.22 unless those charged with governance of the public interest entity have concurred either under a process agreed with those charged with governance or in relation to a specific service with:

(a) The firm's conclusion that the provision of the service will not create a threat to the firm's independence in providing the sustainability assurance service to the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated, or reduced to an acceptable level; and

(b) The provision of that service.

R5600.24 As an exception to paragraphs R5600.22 and R5600.23, where a firm is prohibited by applicable professional standards, laws or regulations from providing information about the proposed non-assurance service to those charged with governance of the public interest entity, or where the provision of such information would result in disclosure of

sensitive or confidential information, the firm may provide the proposed service provided that:

(a) The firm provides such information as it is able without breaching its legal or professional obligations;

(b) The firm informs those charged with governance of the public interest entity that the provision of the service will not create a threat to the firm's independence from the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and

(c) Those charged with governance do not disagree with the firm's conclusion in (b).

R5600.25 The firm or the network firm, having taken into account any matters raised by those charged with governance of the sustainability assurance client that is a public interest entity or by the entity referred to in paragraph R5600.22 that is the recipient of the proposed service, shall decline the non-assurance service or the firm shall end the sustainability assurance engagement if:

(a) The firm or the network firm is not permitted to provide any information to those charged with governance of the sustainability assurance client that is a public interest entity, unless such a situation is addressed in a process agreed in advance with those charged with governance; or

(b) Those charged with governance of a sustainability assurance client that is a public interest entity disagree with the firm's conclusion that the provision of the service will not create a threat to the firm's independence from the client or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.

Sustainability Assurance Client that Later Becomes a Public Interest Entity

R5600.26 A non-assurance service provided, either currently or previously, by a firm or a network firm to a sustainability assurance client compromises the firm's independence when the client becomes a public interest entity unless:

(a) The previous non-assurance service complies with the provisions of this section that relate to sustainability assurance clients that are not public interest entities;

(b) Non-assurance services currently in progress that are not permitted under this section for sustainability assurance clients that are public interest entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a public interest entity; and

(c) The firm and those charged with governance of the client that becomes a public interest entity agree and take further actions to address any threats to independence that are not at an acceptable level.

5600.26 A1 Examples of actions that the firm might recommend to the sustainability assurance client include engaging another firm to:

- Review or re-perform the affected sustainability assurance work to the extent necessary.
- Evaluate the results of the non-assurance service or re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Considerations for Certain Related Entities

R5600.27 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to sustainability assurance clients. As an exception to those requirements and the requirement in paragraph R5400.20, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose sustainability information the firm will express an opinion:

(a) An entity that has direct or indirect control over the client;

(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; or

(c) An entity which is under common control with the client,

provided that all of the following conditions are met:

(i) The firm or a network firm does not express an opinion on the sustainability information of the related entity;

(ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose sustainability information the firm will express an opinion;

(iii) The services do not create a self-review threat; and

(iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

Documentation

5600.28 A1 Documentation of the firm's conclusions regarding compliance with this section in accordance with paragraphs R5400.60 and 5400.60 A1 might include:

- Key elements of the firm's understanding of the nature of the non-assurance service to be provided and whether and how the service might impact the sustainability information on which the firm will express an opinion.
- The nature of any threat to independence that is created by providing the service to the sustainability assurance client, including whether the results of the service will be subject to sustainability assurance procedures.
- The extent of management's involvement in the provision and oversight of the proposed non-assurance service.
- Any safeguards that are applied, or other actions taken to address a threat to independence.
- The firm's rationale for determining that the service is not prohibited and that any identified threat to independence is at an acceptable level.
- In relation to the provision of a proposed non-assurance service to the entities referred to in paragraph R5600.22, the steps taken to comply with paragraphs R5600.22 to R5600.24.

SUBSECTION 5601 – SUSTAINABILITY DATA AND INFORMATION SERVICES

Introduction

5601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant

to applying the conceptual framework when providing sustainability data and information services for the preparation or maintenance of sustainability data, records or information to a sustainability assurance client.

Requirements and Application Material

General

5601.2 A1 Management is responsible for the preparation and presentation of the sustainability information in accordance with the applicable sustainability reporting framework. These responsibilities include:

- Determining sustainability reporting policies and the reporting treatment in accordance with those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction, event or other matter included in the sustainability information.
- Originating or changing sustainability data entries or records.
- Determining or approving sustainability information classifications.

Paragraph R5400.20 prohibits a firm or a network firm from assuming a management responsibility.

Description of Service

5601.3 A1 Sustainability data and information services comprise a broad range of services including:

- Preparing sustainability data records or sustainability information that is reported.
- Recording data, events or other matters included in the sustainability information.
- Resolving sustainability information inaccuracies.
- Converting existing sustainability information from one sustainability reporting framework to another.
- Accounting and bookkeeping services that might affect the sustainability information on which the firm expresses an opinion.

Potential Threats Arising from the Provision of Sustainability Data and Information Services

All Sustainability Assurance Clients

5601.4 A1 Providing sustainability data and information services to a sustainability assurance client creates a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion, or the sustainability data or information records underlying that information.

Sustainability Assurance Clients that are Not Public Interest Entities

R5601.5 A firm or a network firm shall not provide to a sustainability assurance client that is not a public interest entity sustainability data and information services that might affect the sustainability information on which the firm expresses an opinion, unless:

(a) The services are of a routine or mechanical nature; and

(b) The firm addresses any threats that are not at an acceptable level.

5601.5 A1 Sustainability data and information services that are routine or mechanical:

(a) Involve information, data or material in relation to which the client has made any judgements or decisions that might be necessary; and

(b) Require little or no professional judgement.

5601.5 A2 Sustainability data and information services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include the activities performed by, and the output of, the technology, and whether the technology provides an automated service that is based on or requires the expertise or judgement of the firm or network firm.

5601.5 A3 Examples of services, whether manual or automated, that might be regarded as routine or mechanical include:

- Preparing calculations or reports based on client or third party-originated data for approval by the client.
- Recording recurring data which are easily determinable from source documents, where the client has determined or approved the appropriate classification.
- Posting data coded by the client or received from third parties to the sustainability information records.
- Preparing sustainability information to be reported based on information in the client-approved records and preparing related notes based on client-approved records.
- Compiling and presenting factual sustainability data from client or third-party identified sources for comparative purposes.

The firm or a network firm may provide such services to sustainability assurance clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R5400.21 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R5601.5(b).

5601.5 A4 Examples of actions that might be safeguards to address a self-review threat created when providing sustainability data and information services of a routine or mechanical nature to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.

Sustainability Assurance Clients that are Public Interest Entities

R5601.6 A firm or a network firm shall not provide sustainability data and information services that might affect the sustainability information on which the firm expresses an opinion to a sustainability assurance client that is a public interest entity.

[Paragraph R5601.7 is intentionally left blank]

SUBSECTION 5602 – ADMINISTRATIVE SERVICES

Introduction

5602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing administrative services.

Application Material

Description of Service

5602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.

5602.2 A2 Examples of administrative services include:

- Word processing or document formatting.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates and advising a sustainability assurance client of those dates.

Potential Threats Arising from the Provision of Administrative Services

All Sustainability Assurance Clients

5602.3 A1 Providing administrative services to a sustainability assurance client does not usually create a threat when such services are clerical in nature and require little to no professional judgement.

SUBSECTION 5603 – VALUATIONS AND ADVISORY SERVICES ON FORWARD-LOOKING INFORMATION

Introduction

5603. 1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing valuations or advisory services on forward-looking information to a sustainability assurance client.

Requirements and Application Material

Description of Service

5603.2 A1 Valuations and advisory services on forward-looking information, including forecasting, include the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques and the combination of both to compute a certain value, or range of values, for an asset, a liability or for the whole or part of an entity. For such services, the values might be non-monetary, for example, forecasting estimates of materials reserves or the amounts of hazardous substances produced by a manufacturing process.

5603.2 A2 If a firm or a network firm is requested to perform a valuation or an advisory service on forward-looking information to assist a sustainability assurance client with its tax reporting obligations or for tax planning purposes and the results of the service have no effect on the sustainability information on which the firm will express an opinion, or the records underlying that information, other than through entries related to tax, the requirements and application material set out in paragraphs 5604.17 A1 to 5604.19 A1, relating to such services, apply.

Potential Threats Arising from the Provision of Valuations and Advisory Services on Forward-looking Information

All Sustainability Assurance Clients

5603.3 A1 Providing a valuation or an advisory service on forward-looking information to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such a service might also create an advocacy threat.

5603.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing a valuation or an advisory service on forward-looking information to a sustainability assurance client, and evaluating the level of such threats include:

- The use and purpose of the results of the service or its inclusion in a report.
- Whether the results of the service will be made public.
- The extent to which the service methodology is supported by law or regulation, other precedent or established practice.
- The extent of the client's involvement in determining and approving the service methodology and other significant matters of judgement.
- The degree of subjectivity inherent in the item for the service involving standard or established methodologies.
- Whether the service will have a material effect on the sustainability information.
- The extent of the disclosures related to the item covered by the service in the sustainability information.
- The volatility of the values involved as a result of dependence on future events.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5603.5 applies.

Sustainability Assurance Clients that are Not Public Interest Entities

5603.3 A3 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing a valuation or an advisory service on forward-looking information to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.

R5603.4 A firm or a network firm shall not provide a valuation or an advisory service on forward-looking information to a sustainability assurance client that is not a public interest entity if:

(a) The service involves a significant degree of subjectivity; and

(b) The service will have a material effect on the sustainability information on which the firm will express an opinion.

5603.4 A1 Certain valuations and advisory services on forward-looking information do not involve a significant degree of subjectivity. This is likely to be the case when the underlying

assumptions are established by law or regulation or when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation or an advisory service on forward-looking information performed by two or more parties are not likely to be materially different.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5603.5 A firm or a network firm shall not provide a valuation or an advisory service on forward-looking information to a sustainability assurance client that is a public interest entity if the provision of the service might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5603.5 A1 An example of an action that might be a safeguard to address an advocacy threat created by providing a valuation or an advisory service on forward-looking information to a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

SUBSECTION 5604 – TAX SERVICES

Introduction

5604.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a tax service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5604.2 A1 Tax services comprise a broad range of services. This subsection deals specifically with:

- Tax return preparation.
- Tax calculations for the purpose of preparing accounting entries or sustainability information.
- Tax advisory services.
- Tax planning services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

5604.2 A2 It is possible to consider tax services under broad headings, such as tax planning or compliance. However, such services are often interrelated in practice and might be combined with other types of non-assurance services provided by the firm such as corporate finance services. It is, therefore, impracticable to categorise generically the threats to which specific tax services give rise.

5604.2 A3 While tax services are generally relevant to financial information and accounting entries, such services can also be relevant to sustainability and, where they are, might affect the sustainability information on which the firm will express an opinion or the records underlying that information.

Potential Threats Arising from the Provision of Tax Services

5604.3 A1 Providing tax services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

5604.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing any tax service to a sustainability assurance client, and evaluating the level of such threats include:

- The particular characteristics of the engagement.
- The level of tax expertise of the client's employees.
- The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
- The complexity of the relevant tax regime and the degree of judgement necessary in applying it.

All Sustainability Assurance Clients

R5604.4 A firm or a network firm shall not provide a tax service or recommend a transaction to a sustainability assurance client if the service or transaction relates to marketing, planning, or opining in favour of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.

5604.4 A1 Unless the tax treatment has a basis in applicable tax law or regulation that the firm is confident is likely to prevail, providing the non-assurance service described in paragraph R5604.4 creates self-interest, self-review and advocacy threats that cannot be eliminated and safeguards are not capable of being applied to reduce such threats to an acceptable level.

A. Tax Return Preparation

Description of Service

5604.5 A1 Tax return preparation services include:

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

Potential Threats Arising from the Provision of Tax Return Preparation Services

All Sustainability Assurance Clients

5604.6 A1 Providing tax return preparation services does not usually create a threat because:

(a) Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice; and

(b) Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

B. Tax Calculations That Affect Sustainability Information

Description of Service

5604.7 A1 Tax calculation services involve the preparation of calculations of current and deferred tax liabilities or assets for the purpose of preparing accounting entries supporting tax assets or liabilities in the financial statements of the sustainability assurance client. In some cases, those services might also affect the sustainability information of the client.

Potential Threats Arising from the Provision of Tax Calculation Services

All Sustainability Assurance Clients

5604.8 A1 Preparing tax calculations of current and deferred tax liabilities (or assets) for a sustainability assurance client for the purpose of preparing accounting entries that support such balances creates a self-review threat where the results of those calculations affect the sustainability information on which the firm expresses an opinion.

Sustainability Assurance Clients that are Not Public Interest Entities

5604.9 A1 In addition to the factors in paragraph 5604.3 A2, a factor that is relevant in evaluating the level of self-review threat created when preparing such calculations for a sustainability assurance client is whether the calculation might have a material effect on the sustainability information on which the firm will express an opinion.

5604.9 A2 Examples of actions that might be safeguards to address such a self-review threat when the sustainability assurance client is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.

Sustainability Assurance Clients that are Public Interest Entities

R5604.10 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for a sustainability assurance client that is a public interest entity if the results of the services will affect the sustainability information on which the firm will express an opinion. (Ref: Para. R5600.15 and R5600.17).

C. Tax Advisory and Tax Planning Services

Description of Service

5604.11 A1 Tax advisory and tax planning services comprise a broad range of services, such as advising the sustainability assurance client how to structure its affairs in a tax efficient manner or advising on the application of a tax law or regulation.

Potential Threats Arising from the Provision of Tax Advisory and Tax Planning Services

All Sustainability Assurance Clients

5604.12 A1 Providing tax advisory and tax planning services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

5604.12 A2 Providing tax advisory and tax planning services will not create a self-review threat if such services:

(a) Are supported by a tax authority or other precedent;

(b) Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or

(c) Have a basis in tax law that the firm is confident is likely to prevail.

NZ5604.12 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.

5604.12 A3 In addition to paragraph 5604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services to sustainability assurance clients, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the sustainability information on which the firm will express an opinion.
- Whether the tax treatment is supported by a ruling or has otherwise been cleared by the tax authority before the preparation of the sustainability information on which the firm will express an opinion.
- The extent to which the outcome of the tax advice might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5604.15 applies.

NZ R5604.12 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 5604.12 A2.

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

R5604.13 A firm or a network firm shall not provide tax advisory and tax planning services to a sustainability assurance client when:

(a) The effectiveness of the tax advice depends on a particular treatment or presentation in the sustainability information on which the firm will express an opinion; and

(b) The sustainability assurance team has doubt as to the appropriateness of the related treatment or presentation under the relevant sustainability reporting framework.

Sustainability Assurance Clients that are Not Public Interest Entities

5604.14 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing tax advisory and tax planning services to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.

- Having an appropriate reviewer, who was not involved in providing the service, review the sustainability assurance work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5604.15 A firm or a network firm shall not provide tax advisory and tax planning services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15, R5600.17, 5604.12 A2).

Advocacy Threats

5604.15 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing tax advisory and tax planning services to a sustainability assurance client that is a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

D. Tax Services Involving Valuations

Description of Service

5604.16 A1 The provision of tax services involving valuations might arise in a range of circumstances including:

- Merger and acquisition transactions.
- Group restructurings and corporate reorganisations.
- Transfer pricing studies.
- Stock-based compensation arrangements.

Potential Threats Arising from the Provision of Tax Services involving Valuations

All Sustainability Assurance Clients

5604.17 A1 Providing a valuation for tax purposes to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such a service might also create an advocacy threat.

5604.17 A2 When a firm or a network firm performs a valuation for tax purposes to assist a sustainability assurance client with its tax reporting obligations or for tax planning purposes, the result of the valuation might:

(a) Have no effect on the sustainability information on which the firm will express an opinion, or the records underlying that information, other than through accounting entries related to tax. In such situations, the requirements and application material set out in this subsection apply.

(b) Affect the sustainability information on which the firm will express an opinion, or the records underlying that information, in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets. In such

situations, the requirements and application material set out in subsection 5603 relating to valuation services apply.

5604.17 A3 Performing a valuation for tax purposes for a sustainability assurance client will not create a self-review threat if:

(a) The underlying assumptions are either established by law or regulation, or are widely accepted; or

(b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority.

Sustainability Assurance Clients that are Not Public Interest Entities

5604.18 A1 A firm or a network firm might perform a valuation for tax purposes for a sustainability assurance client that is not a public interest entity where the result of the valuation only affects the sustainability information on which the firm will express an opinion, or the records underlying that information, through adjustments related to tax. This would not usually create threats if the effect on the sustainability information is immaterial or the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.

5604.18 A2 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the sustainability information on which the firm expresses an opinion, in addition to paragraph 5604.3 A2, the following factors are relevant in identifying self-review or advocacy threats created by providing those services to a sustainability assurance client that is not a public interest entity, and evaluating the level of such threats:

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
- The degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

5604.18 A3 Examples of actions that might be safeguards to address such threats for a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5604.19 A firm or a network firm shall not perform a valuation for tax purposes for a sustainability assurance client that is a public interest entity if the provision of that service might create a self-review threat. (Ref: Para. R5600.15, R5600.17, 5604.17 A3).

Advocacy Threats

5604.19 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing a valuation for tax purposes for a sustainability assurance client that is a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

E. Assistance in the Resolution of Tax Disputes

Description of Service

5604.20 A1 A non-assurance service to provide assistance to a sustainability assurance client in the resolution of tax disputes might arise from a tax authority's consideration of tax calculations and treatments. Such a service might include, for example, providing assistance when the tax authorities have notified the client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding before a tribunal or court.

Potential Threats Arising from the Provision of Assistance in the Resolution of Tax Disputes

All Sustainability Assurance Clients

5604.21 A1 Providing assistance in the resolution of a tax dispute to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such a service might also create an advocacy threat.

5604.22 A1 In addition to those identified in paragraph 5604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by assisting a sustainability assurance client in the resolution of tax disputes, and evaluating the level of such threats include:

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the sustainability information on which the firm will express an opinion.
- Whether the firm or network firm provided the advice that is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5604.24 applies.

Sustainability Assurance Clients that are Not Public Interest Entities

5604.23 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by assisting a sustainability assurance client that is not a public interest entity in the resolution of tax disputes include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.

- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed might address a self-review threat.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5604.24 A firm or a network firm shall not provide assistance in the resolution of tax disputes to a sustainability assurance client that is a public interest entity if the provision of that assistance might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5604.24 A1 An example of an action that might be a safeguard to address an advocacy threat for a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

Resolution of Tax Matters Including Acting as an Advocate Before a Tribunal or Court

Sustainability Assurance Clients that are Not Public Interest Entities

R5604.25 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to a sustainability assurance client that is not a public interest entity if:

(a) The services involve acting as an advocate for the sustainability assurance client before a tribunal or court in the resolution of a tax matter; and

(b) The amounts involved are material to the sustainability information on which the firm will express an opinion.

Sustainability Assurance Clients that are Public Interest Entities

R5604.26 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to a sustainability assurance client that is a public interest entity if the services involve acting as an advocate for the sustainability assurance client before a tribunal or court.

5604.27 A1 Paragraphs R5604.25 and R5604.26 do not preclude a firm or a network firm from having a continuing advisory role in relation to the matter that is being heard before a tribunal or court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analysing the tax issues related to the matter.

5604.27 A2 What constitutes a "tribunal or court" depends on how tax proceedings are heard in the particular jurisdiction.

SUBSECTION 5605 – INTERNAL AUDIT SERVICES

Introduction

5605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing an internal audit service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5605.2 A1 Internal audit services comprise a broad range of activities and might involve assisting the sustainability assurance client in the performance of one or more aspects of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information relevant to sustainability by:
  - Reviewing the means used to identify, measure, classify and report that financial and operating information.
  - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities relevant to sustainability including non-financial activities of an entity.
- Reviewing compliance with:
  - Laws, regulations and other external requirements.
  - Management policies, directives and other internal requirements.

5605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of those charged with governance as well as the needs and expectations of management. They might involve matters that are operational in nature that will be subject to consideration in relation to the assurance of sustainability information.

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

R5605.3 Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to a sustainability assurance client, the firm shall be satisfied that:

(a) The client designates an appropriate and competent resource, who reports to those charged with governance to:

(i) Be responsible at all times for internal audit activities; and

(ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;

(b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;

(c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;

(d) The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and

(e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

5605.3 A1 Performing part of the client's internal audit activities increases the possibility that individuals within the firm or the network firm providing internal audit services will assume a management responsibility.

5605.3 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

Potential Threats Arising from the Provision of Internal Audit Services

All Sustainability Assurance Clients

5605.4 A1 Providing internal audit services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services impact the assurance of the sustainability information on which the firm will express an opinion.

5605.4 A2 When a firm uses the work of an internal audit function in a sustainability assurance engagement, the applicable assurance standards ordinarily require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or a network firm accepts an engagement to provide internal audit services to a sustainability assurance client, the results of those services might be used in conducting the external assurance of sustainability information. This might create a self-review threat because it is possible that the engagement team will use the results of the internal audit service for purposes of the sustainability assurance engagement without:

(a) Appropriately evaluating those results; or

(b) Exercising the same level of professional scepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

5605.4 A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to a sustainability assurance client, and evaluating the level of such a threat include:

- The materiality of the related sustainability information.
- The risk of misstatement of the assertions related to that sustainability information.

- The degree of reliance that the engagement team will place on the work of the internal audit service.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5605.6 applies.

Sustainability Assurance Clients that are Not Public Interest Entities

5605.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an internal audit service to a sustainability assurance client that is not a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

Sustainability Assurance Clients that are Public Interest Entities

R5605.6 A firm or a network firm shall not provide internal audit services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

5605.6 A1 Examples of the services that are prohibited under paragraph R5605.6 include internal audit services that relate to:

- The internal controls over sustainability reporting.
- Sustainability information systems that generate information for the client's sustainability information on which the firm will express an opinion or the records underlying that information.
- Amounts or disclosures that relate to the sustainability information on which the firm will express an opinion.

SUBSECTION 5606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

5606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5606.2 A1 IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.
- Implementing IT systems, including installation, configuration, interfacing, or customisation.
- Operating, maintaining, monitoring, updating or upgrading IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data.

5606.2 A2 The IT systems might:

(a) Aggregate source data;

(b) Form part of the internal control over sustainability reporting; or

(c) Generate information that affects the sustainability information records or sustainability information reported, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the sustainability assurance client's records underlying the sustainability information or the internal control over sustainability reporting.

Risk of Assuming Management Responsibility When Providing an IT Systems Service

R5606.3 Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to a sustainability assurance client, the firm or network firm shall be satisfied that:

(a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;

(b) The client, through a competent individual (or individuals), preferably within senior management, makes all management decisions that are the proper responsibility of management with respect to the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT systems;

(c) The client evaluates the adequacy and results of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT system; and

(d) The client is responsible for operating the IT system and for the data it generates and uses.

5606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Stores data or manages (directly or indirectly) the hosting of data on behalf of the sustainability assurance client. Such services include:
  - Acting as the only access to a financial or non-financial information system of the sustainability assurance client.
  - Taking custody of or storing the sustainability assurance client's data or records such that the sustainability assurance client's data or records are otherwise incomplete.
  - Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the sustainability assurance client's data or records.
- Operates, maintains, or monitors the sustainability assurance client's IT systems, network or website.

5606.3 A2 The collection, receipt, transmission and retention of data provided by a sustainability assurance client in the course of a sustainability assurance engagement or to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

Potential Threats Arising from the Provision of IT Systems Services

Sustainability Assurance Clients

5606.4 A1 Providing IT systems services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the assurance of the sustainability information on which the firm will express an opinion.

5606.4 A2 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to a sustainability assurance client, and evaluating the level of such a threat include:

- The nature of the service.
- The nature of the client's IT systems and the extent to which the IT systems service impacts or interacts with the client's sustainability information on which the firm will express an opinion, the records underlying that information, or internal controls over sustainability reporting.
- The degree of reliance that will be placed on the particular IT systems as part of the sustainability assurance engagement.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5606.6 applies.

5606.4 A3 Examples of IT systems services that create a self-review threat when they form part of or affect a sustainability assurance client's sustainability information records or system of internal control over sustainability reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems, including those related to cybersecurity.
- Supporting a sustainability assurance client's IT systems, including network and software applications.
- Implementing sustainability information management systems or sustainability information reporting software, whether or not it was developed by the firm or a network firm.

Sustainability Assurance Clients that are Not Public Interest Entities

5606.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an IT systems service to a sustainability assurance client that is not a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

Sustainability Assurance Clients that are Public Interest Entities

R5606.6 A firm or a network firm shall not provide IT systems services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat (Ref: Para. R5600.15 and R5600.17).

SUBSECTION 5607 – LITIGATION SUPPORT SERVICES

Introduction

5607. 1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a litigation support service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5607.2 A1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.

- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.
- Forensic or investigative services.

Potential Threats Arising from the Provision of Litigation Support Services

All Sustainability Assurance Clients

5607.3 A1 Providing litigation support services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

5607.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing litigation support services to a sustainability assurance client, and evaluating the level of such threats include:

- The legal and regulatory environment in which the service is provided.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service might involve estimating, or might affect the estimation of, damages or other amounts that might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5607.6 applies.

5607.4 A2 If a firm or a network firm provides a litigation support service to a sustainability assurance client and the service might involve estimating, or might affect the estimation of, damages or other amounts that affect the sustainability information on which the firm will express an opinion, the requirements and application material set out in Subsection 5603 related to valuation services apply.

Sustainability Assurance Clients that are Not Public Interest Entities

5607.5 A1 An example of an action that might be a safeguard to address a self-review or advocacy threat created by providing a litigation support service to a sustainability assurance client that is not a public interest entity is using a professional who was not a sustainability assurance team member to perform the service.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5607.6 A firm or a network firm shall not provide litigation support services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

5607.6 A1 An example of a service that is prohibited because it might create a self-review threat is providing advice in connection with a legal proceeding where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the sustainability information on which the firm will express an opinion.

Advocacy Threats

5607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing a litigation support service to a sustainability assurance client that is a

public interest entity is using a professional who was not a sustainability assurance team member to perform the service.

Acting as a Witness

Sustainability Assurance Clients

5607.7 A1 A professional within the firm or the network firm might give evidence to a tribunal or court as a witness of fact or as an expert witness.

(a) A witness of fact is an individual who gives evidence to a tribunal or court based on his or her direct knowledge of facts or events.

(b) An expert witness is an individual who gives evidence, including opinions on matters, to a tribunal or court based on that individual's expertise.

5607.7 A2 A threat to independence is not created when an individual, in relation to a matter that involves a sustainability assurance client, acts as a witness of fact and in the course of doing so provides an opinion within the individual's area of expertise in response to a question asked in the course of giving factual evidence.

5607.7 A3 The advocacy threat created when acting as an expert witness on behalf of a sustainability assurance client is at an acceptable level if a firm or a network firm is:

(a) Appointed by a tribunal or court to act as an expert witness in a matter involving a client; or

(b) Engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided that:

(i) The firm's sustainability assurance clients constitute less than 20% of the members of the class or group (in number and in value);

(ii) No sustainability assurance client is designated to lead the class or group; and

(iii) No sustainability assurance client is authorised by the class or group to determine the nature and scope of the services to be provided by the firm or the terms on which such services are to be provided.

Sustainability Assurance Clients that are Not Public Interest Entities

5607.8 A1 An example of an action that might be a safeguard to address an advocacy threat for a sustainability assurance client that is not a public interest entity is using a professional to perform the service who is not, and has not been, a sustainability assurance team member.

Sustainability Assurance Clients that are Public Interest Entities

R5607.9 A firm or a network firm, or an individual within a firm or a network firm, shall not act for a sustainability assurance client that is a public interest entity as an expert witness in a matter unless the circumstances set out in paragraph 5607.7 A3 apply.

SUBSECTION 5608 – LEGAL SERVICES

Introduction

5608.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a legal service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5608.2 A1 Legal services are defined as any services for which the individual providing the services must either:

(a) Have the required legal training to practice law; or

(b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

5608.2 A2 This subsection deals specifically with:

- Providing legal advice.
- Acting as general counsel.
- Acting in an advocacy role.

Potential Threats Arising from Providing Legal Services

All Sustainability Assurance Clients

5608.3 A1 Providing legal services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

A. Providing Legal Advice

Description of Service

5608.4 A1 Depending on the jurisdiction, providing legal advice might include a wide and diversified range of service areas including both corporate and commercial services to sustainability assurance clients, such as:

- Contract support.
- Supporting a sustainability assurance client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting a sustainability assurance client's internal legal department.
- Legal due diligence and restructuring.

Potential Threats Arising from Providing Legal Advice

All Sustainability Assurance Clients

5608.5 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing legal advice to a sustainability assurance client, and evaluating the level of such threats include:

- The materiality of the specific matter in relation to the client's sustainability information reported.
- The complexity of the legal matter and the degree of judgement necessary to provide the service.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5608.7 applies.

5608.5 A2 Examples of legal advice that might create a self-review threat include:

- Estimating a potential loss arising from a lawsuit that will be disclosed in the sustainability information on which the firm will express an opinion.
- Interpreting provisions in contracts that might affect information disclosed in the sustainability information on which the firm will express an opinion.

5608.5 A3 Negotiating on behalf of a sustainability assurance client might create an advocacy threat or might result in the firm or network firm assuming a management responsibility.

Sustainability Assurance Clients that are Not Public Interest Entities

5608.6 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing legal advice to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address a self-review or advocacy threat.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed might address a self-review threat.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5608.7 A firm or a network firm shall not provide legal advice to a sustainability assurance client that is a public interest entity if the provision of such a service might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5608.8 A1 The considerations in paragraphs 5608.5 A1 and 5608.5 A3 to 5608.6 A1 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advice to a sustainability assurance client that is a public interest entity.

B. Acting as General Counsel

All Sustainability Assurance Clients

R5608.9 An engagement leader or employee of the firm or the network firm shall not serve as General Counsel of a sustainability assurance client.

5608.9 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

C. Acting in an Advocacy Role

Potential Threats Arising from Acting in an Advocacy Role Before a Tribunal or Court

Sustainability Assurance Clients that are Not Public Interest Entities

R5608.10 A firm or a network firm shall not act in an advocacy role for a sustainability assurance client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court when the amounts or the information involved are material to the sustainability information on which the firm will express an opinion.

5608.10 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed.

Sustainability Assurance Clients that are Public Interest Entities

R5608.11 A firm or a network firm shall not act in an advocacy role for a sustainability assurance client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

SUBSECTION 5609 – RECRUITING SERVICES

Introduction

5609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a recruiting service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5609.2 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
  - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
  - Undertaking reference checks of prospective candidates.
  - Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Risk of Assuming Management Responsibility When Providing a Recruiting Service

R5609.3 Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing a recruiting service to a sustainability assurance client, the firm shall be satisfied that:

(a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and

(b) The client makes all management decisions with respect to the hiring process, including:

- Determining the suitability of prospective candidates and selecting suitable candidates for the position.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Potential Threats Arising from Providing Recruiting Services

All Sustainability Assurance Clients

5609.4 A1 Providing recruiting services to a sustainability assurance client might create a self-interest, familiarity or intimidation threat.

5609.4 A2 Providing the following services does not usually create a threat as long as individuals within the firm or the network firm do not assume a management responsibility:

- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
- Interviewing candidates and advising on a candidate's competence for sustainability reporting, administrative or control positions.

5609.4 A3 Factors that are relevant in identifying self-interest, familiarity or intimidation threats created by providing recruiting services to a sustainability assurance client, and evaluating the level of such threats include:

- The nature of the requested assistance.
- The role of the individual to be recruited.
- Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.

5609.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not sustainability assurance team members to perform the service.

Recruiting Services that are Prohibited

R5609.5 When providing recruiting services to a sustainability assurance client, the firm or the network firm shall not act as a negotiator on the client's behalf.

R5609.6 A firm or a network firm shall not provide a recruiting service to a sustainability assurance client if the service relates to:

(a) Searching for or seeking out candidates;

(b) Undertaking reference checks of prospective candidates;

(c) Recommending the person to be appointed; or

(d) Advising on the terms of employment, remuneration or related benefits of a particular candidate, with respect to the following positions:

(i) A director or officer of the entity; or

(ii) A member of senior management in a position to exert significant influence over the preparation of the client's sustainability information on which the firm will express an opinion or the records underlying that information.

SUBSECTION 5610 – CORPORATE FINANCE SERVICES

Introduction

5610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a corporate finance service to a sustainability assurance client.

Requirements and Application Material

Description of Service

5610.2 A1 Examples of corporate finance services include:

- Assisting a sustainability assurance client in developing corporate strategies.
- Identifying possible targets for the sustainability assurance client to acquire.
- Advising on the potential purchase or disposal price of an asset.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements.

Potential Threats Arising from the Provision of Corporate Finance Services

All Sustainability Assurance Clients

5610.3 A1 Providing corporate finance services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the sustainability information on which the firm will express an opinion or the records underlying that information. Such services might also create an advocacy threat.

5610.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing corporate finance services to a sustainability assurance client, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the sustainability information on which the firm will express an opinion.
- The extent to which:
  - The outcome of the corporate finance advice will directly affect amounts recorded in the sustainability information on which the firm will express an opinion.
  - The outcome of the corporate finance service might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5610.8 applies.

Corporate Finance Services that are Prohibited

R5610.5 A firm or a network firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the sustainability assurance client or providing advice on investment in such shares, debt or other financial instruments.

R5610.6 A firm or a network firm shall not provide advice in relation to corporate finance services to a sustainability assurance client where:

(a) The effectiveness of such advice depends on a particular method of measurement or presentation in the sustainability information on which the firm will express an opinion; and

(b) The sustainability assurance team has doubt as to the appropriateness of the related method of measurement or presentation under the relevant financial or sustainability reporting framework.

Sustainability Assurance Clients that are Not Public Interest Entities

5610.7 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing corporate finance services to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.

Sustainability Assurance Clients that are Public Interest Entities

Self-review Threats

R5610.8 A firm or a network firm shall not provide corporate finance services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5610.8 A1 An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance services to a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

GLOSSARY

In the *International Code of Ethics for Professional Accountants (including International Independence Standards) (New Zealand)*, the singular shall be construed as including the plural as well as the reverse, and the terms below have the following meanings assigned to them.

In this Glossary, explanations of defined terms are shown in regular font; italics are used for explanations of described terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms. References are also provided to terms described in the Code.

Acceptable level	A level at which an assurance practitioner or sustainability assurance practitioner using the reasonable and informed third party test would likely conclude that the assurance practitioner or sustainability assurance practitioner complies with the fundamental principles.
Advertising	The communication to the public of information as to the services or skills provided by assurance practitioners or sustainability assurance practitioners with a view to procuring assurance business.
Another practitioner	A firm, other than the sustainability assurance practitioner's firm, that performs work that the sustainability assurance practitioner intends to use for the purposes of the sustainability assurance engagement, and the sustainability assurance practitioner is unable to be sufficiently and appropriately involved in that work. *An individual from another practitioner who performs the work is neither a member of the engagement team nor a practitioner's expert.*
Appropriate reviewer	*An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be an assurance practitioner or a sustainability assurance practitioner.* *This term is described in paragraphs 300.8 A4 and 5300.8 A4.*
Assurance client	The responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party). *In the case of a sustainability assurance engagement addressed in Part 5, see the definition of "sustainability assurance client."*
Assurance engagement	An engagement in which an assurance practitioner aims to obtain sufficient appropriate evidence in or to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria). (ISAE (NZ) 3000 (Revised) describes the elements and objectives of an assurance engagement conducted under that Standard and Explanatory Guide (EG) Au1 *Overview of Auditing and Assurance Standards* provides a general description of assurance engagements to which *International Standards on Auditing (New Zealand)* (ISAs (NZ)), *International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities* (ISA (NZ) for LCE), *International Standards on Review*

Engagements (New Zealand) (ISREs (NZ)), *New Zealand Standard on Review Engagements* (NZ SRE), *International Standards on Assurance Engagements (New Zealand)* (ISAEs (NZ)), *Standards on Assurance Engagements* (SAEs) and *International Standards on Sustainability Assurance (New Zealand)* (ISSAs (NZ)) apply.)

In Part 4B, the term 'assurance engagement' refers to assurance engagements that are not audit engagements, review engagements, or sustainability assurance engagements addressed in Part 5.

[NZ] Assurance practitioner	A person or an organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements or related services. *In the case of sustainability assurance engagements addressed in Part 5, see the definition of "sustainability assurance practitioner."*
[NZ] Assurance services	Comprise of any assurance engagements performed by an assurance practitioner.
Assurance team	(a) All members of the engagement team for the assurance engagement; (b) All others within, or engaged by, the firm who can directly influence the outcome of the assurance engagement, including: (a) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement; (b) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and (c) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement. *In the case of sustainability assurance engagements addressed in Part 5, see the definition of "sustainability assurance team."*
Attestation engagement	An assurance engagement in which a party other than the assurance practitioner or the sustainability assurance practitioner, as applicable, measures or evaluates the underlying subject matter against the criteria. A party other than the assurance practitioner or the sustainability assurance practitioner also often presents the resulting subject matter in formation in a report or statement. In some cases, however, the subject matter information may be presented by the assurance practitioner or the sustainability assurance practitioner in the assurance report. In an attestation engagement, the assurance practitioner's or the sustainability assurance practitioner's conclusion addresses whether the subject matter information is free from material misstatement. The assurance practitioner's or the sustainability assurance practitioner's conclusion may be phrased in terms of:

(a) The underlying subject matter and the applicable criteria;

(b) The subject matter information and the applicable criteria; or

(c) A statement made by the appropriate party(ies).

[NZ] Audit client

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

Audit engagement

A reasonable assurance engagement in which an assurance practitioner expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with *International Standards on Auditing (New Zealand)* or *International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE*). This includes a Statutory Audit, which is an audit required by legislation or other regulation.

Audit team

- All members of the engagement team for the audit engagement;
- All others within, or engaged by, the firm who can directly influence the outcome of the audit engagement, including:

  (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);

  (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and

  (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review for the engagement; and

(c) Any other individuals within a network firm who can directly influence the outcome of the audit engagement.

In Part 4A, the term "audit team" applies equally to "review team". In the case of a group audit, see the definition of group audit team.

Close family

A parent, child or sibling who is not an immediate family member.

Component (Audit and Review Engagements)	For a group audit, an entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in the group audit.
Component (Sustainability Assurance Engagements Addressed in Part 5)	For a group sustainability assurance engagement, an entity, business unit, function or business activity, or some combination thereof, within the reporting boundary, determined by the group sustainability assurance firm for purposes of planning and performing the group sustainability assurance engagement. A component is either a group component or a value chain component. *Group component – in the context of a sustainability assurance engagement in Part 5, see separate definition.* *Value chain component – in the context of a sustainability assurance engagement in Part 5, see separate definition.*
Component audit client	A component in respect of which a group auditor firm or component auditor firm performs audit work for purposes of a group audit. When a component is: (a) A legal entity, the component audit client is the entity and any related entities over which the entity has direct or indirect control; or (b) A business unit, function or business activity (or some combination thereof), the component audit client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.
Component auditor firm	A firm performing audit work related to a component for purposes of a group audit.
Component practitioner	A firm that performs assurance work related to a component for purposes of the group sustainability assurance engagement, and the group sustainability assurance firm is able to be sufficiently and appropriately involved in that work. The individuals from a component practitioner who perform the assurance work are members of the engagement team.
Conceptual framework	*This term is described in Sections 120 and 5120.*
Confidential information	Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not publicly available.
Contingent fee	A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.
Cooling-off period	*This term is described in paragraphs R540.7 and R5540.7 for the purposes of paragraphs R540.13 to R540.21, and R5440.13 to R5540.21.*
Criteria	In an assurance engagement, including a sustainability assurance engagement, the benchmarks used to measure or evaluate the underlying subject matter. The "applicable criteria" are the criteria used for the particular engagement.

Direct engagement	An assurance engagement in which the assurance practitioner measures or evaluates the underlying subject matter against the applicable criteria and the assurance practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the assurance practitioner's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.
Direct financial interest	A financial interest: • Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or • Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which might vary from jurisdiction to jurisdiction.
Eligible audit engagement	*This term is described in paragraph 800.2 for the purposes of Section 800.*
Eligible assurance engagement	*This term is described in paragraph 990.2 for the purposes of Section 990.*
Engagement leader	An individual, appointed by the firm, who is responsible for the sustainability assurance engagement and its performance, and for the sustainability assurance report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. "Engagement leader" should be read as referring to its public sector equivalent where relevant. *In the case of audit and review engagements, see the definition of "engagement partner."*
Engagement partner[9]	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. *In the case of a sustainability assurance engagement addressed in Part 5, see the definition of "engagement leader."*
Engagement period (Audit and Review Engagements)	The engagement period starts when the audit or review team begins to perform the audit or review. The engagement period ends when the audit or review report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit or review report.

[9] Engagement partner: should be read as referring to their public sector equivalents where relevant.

Engagement period (Assurance Engagements Other than Audit Engagements, Review Engagements, and sustainability Assurance Engagements Addressed in Part 5)	The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.
Engagement period (Sustainability Assurance Engagements Addressed in Part 5)	The engagement period starts when the sustainability assurance team begins to perform the sustainability assurance engagement. The engagement period ends when the sustainability assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final sustainability assurance report.
Engagement quality review	An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
Engagement quality reviewer	A leader or partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
Engagement team	All leaders or partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement. *In Part 4A, the term "engagement team" refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.9.* *ISA (NZ) 220 provides further guidance on the definition of engagement team in the context of an audit of financial statements.* *ISA (NZ) 620 defines an auditor's expert as an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. ISA (NZ) 620 deals with the auditor's responsibilities relating to the work of such experts.* *ISA (NZ) 610 deals with the auditor's responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.* *In Part 4B, the term "engagement team" refers to individuals performing assurance procedures on the assurance engagement.* *In Part 5, the term "engagement team" refers to individuals performing assurance procedures on the sustainability assurance engagement. This excludes individuals whose work the sustainability assurance practitioner is not able to be sufficiently and appropriately involved in (e.g., individuals from*

	"another practitioner"). This term is further described in paragraph 5400.10a in Part 5.
Existing accountant	An accountant currently holding an audit appointment or carrying out accounting, tax, consulting or similar non-assurance services for a client.
Existing practitioner	An individual or an entity currently holding an appointment to perform a sustainability assurance engagement or carrying out other professional services for a sustainability assurance client.
Expert	An individual possessing expertise that is outside the assurance practitioner's or sustainability assurance practitioner's competence. Where appropriate, the term also refers to the individual's organisation.
Expertise	Skills, knowledge and experience in a particular field.
External expert	An expert engaged by an assurance practitioner, assurance practitioner's employing organisation or firm, or by a sustainability assurance practitioner. *In the context of audit engagements, an expert (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) possessing expertise in a field other than accounting or auditing, whose work in that field is used to assist the assurance practitioner in obtaining sufficient appropriate audit evidence.* *In the context of other assurance engagements, including sustainability assurance engagements, an expert (who is not an engagement leader, a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) possessing expertise in a field other than assurance, whose work in that field is used to assist the assurance practitioner or sustainability assurance practitioner in obtaining sufficient appropriate evidence.* *In the context of audit and other assurance engagements, external experts are not members of the engagement team, audit team, review team, assurance team, or sustainability assurance team.* *Sections 290, 390 and 5390 set out the requirements and application material addressing the use of the work of an external expert.*
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Financial statements	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.

The term does not refer to specific elements, accounts or items of a financial statement.

Financial statements on which the firm will express an opinion	In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.
Firm	(a) A sole practitioner, partnership or corporation undertaking assurance engagements or sustainability assurance engagements; (b) An entity that controls such parties, through ownership, management or other means; and (c) An entity controlled by such parties, through ownership, management or other means. *Paragraphs 400.4 and 900.3 explain how the word "firm" is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively.* *Paragraph 5400.4 explains how the word "firm" is used to address the responsibility of individual sustainability assurance practitioners and firms for compliance with Part 5*
[NZ] FMC reporting entity considered to have a higher level of public accountability	A FMC reporting entity of a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities: **(a)** Under section 461K of the Financial Markets Conduct Act 2013; or **(b)** By notice issued by the Financial Markets Authority under section 461L(1)(a) of the Financial Markets Conduct Act 2013.
Fundamental principles	*This term is described in paragraph 110.1 A1 and 5110 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:* *Integrity* — *R111.1 and R5111.1* *Objectivity* — *R112.1 and R5112.1* *Professional competence and due care* — *R113.1 and R5113.1* *Confidentiality* — *R114.1 to R114.3 and R5114.1 to R5114.3* *Professional behaviour* — *R115.1 and R5115.1*
General-purpose framework	A reporting framework designed to meet the common information needs of a wide range of users. The framework may be a fair presentation framework or a compliance framework. The term "fair presentation framework" is used to refer to a reporting framework that requires compliance with the requirements of the framework and: (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the reported information, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

(b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the reported information. Such departures are expected to be necessary only in extremely rare circumstances.

The term "compliance framework" is used to refer to a reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgments in (a) or (b) above.

In Part 5, general purpose framework refers to general purpose sustainability reporting frameworks.

Group	A reporting entity for which group financial statements or group sustainability information is prepared.
Group audit	The audit of group financial statements.
[NZ] Group audit client	The entity on whose group financial statements the group auditor firm conducts an audit engagement. When the entity is a FMC reporting entity considered to have a higher level of public accountability, the group audit client will always include its related entities and any other components at which audit work is performed. When the entity is not a FMC reporting entity considered to have a higher level of public accountability, the group audit client includes related entities over which such entity has direct or indirect control and any other components at which audit work is performed. *See also paragraph R400.27.*
Group auditor firm	The firm that expresses the opinion on the group financial statements.
Group audit team	(a) All members of the engagement team for the group audit, including individuals within, or engaged by, component auditor firms who perform audit procedures related to components for purposes of the group audit; (b) All others within, or engaged by, the group auditor firm who can directly influence the outcome of the group audit, including: (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement partner in connection with the performance of the group audit, including those at all successively senior levels above the group engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent); (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group audit; and (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group audit;

(c) Any other individuals within a network firm of the group auditor firm's network who can directly influence the outcome of the group audit; and

(d) Any other individuals within a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit.

Group component (for a sustainability assurance engagement)	A group component is a component required to be included in the reporting entity's group financial statements. If the group component is: (a) A legal entity, it is the entity and any related entities within the reporting boundary over which the entity has direct or indirect control; or (b) A business unit, function or business activity (or some combination thereof), it is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.
Group engagement leader	The engagement leader who is responsible for the group sustainability assurance engagement.
Group engagement partner	The engagement partner who is responsible for the group audit.
Group financial statements	Financial statements that include the financial information of more than one entity or business unit through a consolidation process.
Group sustainability assurance client	The entity on whose group sustainability information the group sustainability assurance firm conducts a sustainability assurance engagement. When the entity is a publicly traded entity, the group sustainability assurance client will always include its related entities and any other group components at which assurance work is performed. When the entity is not a publicly traded entity, the group sustainability assurance client includes related entities over which such entity has direct or indirect control and any other group components at which assurance work is performed. *See also paragraph R5400.27.*
Group sustainability assurance engagement	An assurance engagement on group sustainability information.
Group sustainability assurance firm	The firm that expresses the opinion on the group sustainability information.
Group sustainability assurance team	(a) All members of the engagement team for the group sustainability assurance engagement, including individuals within, or engaged by, component practitioners who perform assurance procedures related to components for purposes of the group sustainability assurance engagement;

(b) All others within, or engaged by, the group sustainability assurance firm who can directly influence the outcome of the group sustainability assurance engagement, including:

(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement leader in connection with the performance of the group sustainability assurance engagement, including those at all successively senior levels above the group engagement leader through to the individual who is the firm's Chief Executive or equivalent;

(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group sustainability assurance engagement; and

(iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group sustainability assurance engagement;

(c) Any other individuals within a network firm of the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement; and

(d) Any other individuals within a component practitioner outside the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement.

Group sustainability information	Sustainability information that includes the sustainability information of more than one entity or business unit.
Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
Immediate family	A spouse (or equivalent) or dependent.
Independence	Independence comprises: (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism. (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit or assurance, or sustainability assurance team member's, integrity, objectivity or professional scepticism has been compromised. *As set out in paragraphs 400.5, 900.4 and 5400.5, references to an individual or firm being "independent" mean that the individual or firm has complied with Parts 4A, 4B and 5, as applicable.*

Indirect financial interest	A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.
Inducement	An object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour. *Inducements can range from minor acts of hospitality between assurance practitioners and existing or prospective clients, or between sustainability assurance practitioners and existing or prospective sustainability assurance clients, to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:* • *Gifts.* • *Hospitality.* • *Entertainment.* • *Political or charitable donations.* • *Appeals to friendship and loyalty.* • *Employment or other commercial opportunities.* • *Preferential treatment, rights or privileges.*
Key audit partner	The engagement partner, the individual responsible for the engagement quality review, and other audit partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, engagement partners for certain components in a group audit such as significant subsidiaries or divisions.
Key sustainability assurance leader	The engagement leader, the individual responsible for the engagement quality review, and other leaders, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the sustainability assurance engagement. Depending upon the circumstances and the role of the individuals on the sustainability assurance engagement, "other leaders" might include, for example, engagement leaders for certain group components in a group sustainability assurance engagement such as significant subsidiaries or divisions. *A sustainability assurance leader performing assurance work at a value chain component is not, as a result of that role, a key sustainability assurance leader for purposes of the group sustainability assurance engagement.*
Leader	Any individual with authority to bind a firm with respect to the performance of a professional service. *This term is used in the context of sustainability assurance engagements in Part 5.*

May	*This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.*
Might	*This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.*
Network	A larger structure: (a) That is aimed at co-operation; and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality management policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.
Network firm	A firm or entity that belongs to a network. *For further information, see paragraphs 400.50 A1 to 400.54 A1 in Part 4A and paragraphs 5400.50 A1 to 5400.54 A1 in Part 5.*
Non-compliance with laws and regulations *(Assurance Practitioners performing professional activities pursuant to their relationship with the firm)*	*Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:* *(a) An assurance practitioner's employing organisation;* *(b) Those charged with governance of the employing organisation;* *(c) Management of the employing organisation; or* *(d) Other individuals working for or under the direction of the employing organisation* *This term is described in paragraph 260.5 A1.*
Non-compliance with laws and regulations *(Assurance Practitioners)*	*Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:* *(a) A client;* *(b) Those charged with governance of a client;* *(c) Management of a client; or* *(d) Other individuals working for or under the direction of a client.* *This term is described in paragraph 360.5 A1.*
Non-compliance with laws and regulations	*Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are*

(Sustainability Assurance Practitioners)	*contrary to the prevailing laws or regulations committed by the following parties:* *(a) A sustainability assurance client;* *(b) Those charged with governance of a sustainability assurance client;* *(c) Management of a sustainability assurance client; or* *(d) Other individuals working for or under the direction of a sustainability assurance client.* *This term is described in paragraph 5360.5 A1.*
[NZ] Offer document	A document, such as a product disclosure statement or a disclosure document, required by legislation to be prepared by an entity when financial products are offered to the public.
Office	A distinct sub-group, whether organised on geographical or practice lines.
Predecessor accountant	A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.
Predecessor practitioner	An individual or an entity who most recently held an appointment to perform a sustainability assurance engagement or carried out other professional services for a sustainability assurance client, where there is no existing practitioner.
Professional accountant	*[Deleted by the NZAuASB]*
Professional accountant in business	*[Deleted by the NZAuASB]*
Professional accountant in public practice	*[Deleted by the NZAuASB]*
Professional activity	An activity requiring professional skills undertaken by an assurance practitioner or a sustainability assurance practitioner, including accounting, auditing, sustainability reporting or assurance, tax, consulting, and financial management.
Professional judgement	*Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.* *This term is described in paragraphs 120.5 A4 and 5120.5 A4.*
Professional services	Professional activities performed for clients.
Proposed accountant	*[Deleted by the NZAuASB]*

[NZ] Proposed assurance practitioner	An assurance practitioner who is considering accepting an audit, review or assurance appointment for a prospective client (or in some cases, an existing client).
Proposed practitioner	A sustainability assurance practitioner who is considering accepting an appointment to perform a sustainability assurance engagement or carry out other professional services for a prospective sustainability assurance client (or in some cases, an existing sustainability assurance client)
[NZ] Public interest entity	For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories: • A publicly traded entity; • An entity one of whose main functions is to take deposits from the public; • An entity one of whose main functions is to provide insurance to the public; or • An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15. The Code provides for the categories to be more explicitly defined or added to as described in paragraphs 400.23 A1 and 400.23 A2. Notwithstanding (a)-(d) above, any entity that meets the Tier 1 criteria in accordance with XRB A1[10] and is not eligible to report in accordance with the accounting requirements of another tier is a public interest entity.
Publicly traded entity	An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. *A listed issuer as defined by relevant securities law or regulation is an example of a publicly traded entity.*
Reasonable and informed third party test	*The reasonable and informed third party test is a consideration by the assurance practitioner or the sustainability assurance practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the assurance practitioner or the sustainability assurance practitioner knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an assurance practitioner or a sustainability assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the assurance practitioner's or a sustainability assurance practitioner's conclusions in an impartial manner.* *These terms are described in paragraphs R120.5 A9 and 5120.5 A9.*

[10] XRB A1 *Application of the Accounting Standards Framework*

Related entity	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 (c) 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 (e) 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.
Reporting boundary	Activities, operations, relationships or resources to be included in the entity's sustainability information.
Responsible party	In an assurance engagement, the party responsible for the underlying subject matter.
Review client	An entity in respect of which a firm conducts a review engagement.
Review engagement	An assurance engagement, conducted in accordance with *International Standards on Review Engagements (New Zealand) 2400* or *New Zealand Standard on Review Engagements 2410,* in which an assurance practitioner expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the assurance practitioner's attention that causes the assurance practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.
Review team	(a) All members of the engagement team for the review engagement; and (b) All others within, or engaged by, the firm who can directly influence the outcome of the review engagement, including: (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent); (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and (iii) Those who perform and engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and

(c) Any other individuals within a network firm who can directly influence the outcome of the review engagement.

Safeguards	*Safeguards are actions, individually or in combination, that the ~~professional accountant~~ assurance practitioner or the sustainability assurance practitioner takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.* *This term is described in paragraph 120.10 A2 and 5120.10 A2.*
Senior assurance practitioner	*Senior assurance practitioners are directors, offices or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organisation's human, financial, technological, physical and intangible resources.* *This term is described in paragraph 260.11 A1*
Senior professional accountant in business	*[Deleted by the NZAuASB]*
Special purpose financial statements	Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.
Subject matter information	The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.
Substantial harm	*This term is described in paragraphs 260.5 A3, 360.5 A3 and 5360.5 A3.*
Sustainability assurance client	An entity in respect of which a firm conducts a sustainability assurance engagement. When the client is a publicly traded entity, sustainability assurance client will always include its related entities. When the sustainability assurance client is not a publicly traded entity, sustainability assurance client includes those related entities over which the client has direct or indirect control. (See also paragraph R5400.27.)
Sustainability assurance engagement	An engagement in which a sustainability assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the sustainability information. A sustainability assurance engagement can be either a: • Reasonable assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation, including presentation and disclosure, of the underlying subject matter against applicable criteria; or • Limited assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable

in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the sustainability information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgement, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the sustainability information to a degree that is clearly more than inconsequential.

Sustainability assurance practitioner

The individual(s) conducting a sustainability assurance engagement (usually the engagement leader or other members of the engagement team, or, as applicable, the firm).

Sustainability assurance team

(a) All members of the engagement team for the sustainability assurance engagement;

(b) All others within, or engaged by, the firm who can directly influence the outcome of the sustainability assurance engagement, including:

(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement leader in connection with the performance of the sustainability assurance engagement, including those at all successively senior levels above the engagement leader through to the individual who is the firm's Chief Executive;

(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and

(iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and

(c) Any other individuals within a network firm who can directly influence the outcome of the sustainability assurance engagement.

Sustainability information

Information about sustainability matters.

Sustainability matters are environmental, social, governance or other sustainability-related matters as defined or described in law or regulation or relevant sustainability reporting frameworks, or as determined by the entity for purposes of preparing or presenting sustainability information.

Sustainability information includes information that may be:

- *Expressed in financial or non-financial terms.*
- *Historical or forward-looking.*
- *Prepared for internal purposes or for mandatory or voluntary*

disclosure.

- *Obtained from an entity or its value chain.*
- *Related to the quantitative or qualitative evaluation of an entity's past or expected performance over the short, medium or long term.*
- *Described in an entity's governance structure, policies, plans, goals, commitments or representations.*
- *About the effects (including risks and opportunities) of environmental, social, governance or other sustainability-related matters on an entity's business model, activities, services or products.*
- *About the effects of an entity's business model, activities, services or products on the environment, society or economy.*

Those charged with governance	The person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process or the sustainability reporting process, as applicable. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.
Threats	*This term is described in paragraph 120.6 A3 and 5120.6 A3 and includes the following categories:*

Self interest	*120.6 A3(a) and 5120.6 A3(a)*
Self-review	*120.6 A3(b) and 5120.6 A3(b)*
Advocacy	*120.6 A3(c) and 5120.6 A3(c)*
Familiarity	*120.6 A3(d) and 5120.6 A3(d)*
Intimidation	*120.6 A3(e) and 5120.6 A3(e)*

Time-on period	*This term is described in paragraph R540.7 in Part 4A and R5540.7 in Part 5.*
Underlying subject matter	The phenomenon that is measured or evaluated by applying criteria.
Value Chain	The value chain is a reporting concept that is defined, described or otherwise specified in the applicable sustainability reporting framework. *The value chain might include, for example, certain sustainability assurance client's customers and suppliers for sustainability reporting purposes.*
Value chain component (for a sustainability assurance engagement)	A value chain component is a component within the reporting entity's value chain that is not included in the group financial statements. If the value chain component is: (a) A legal entity, it is the entity; or

(b) A business unit, function or business activity (or some combination thereof), it is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

Schedule 1

Transitional, savings and related provisions

Part 1 Provisions relating to this standard as made

1. For the firm, with respect to Sections 5405 and 5406 related to assurance work performed at a value chain component, the first accounting periods that begin on or after 1 July 2028. For sustainability assurance engagements on sustainability information for accounting periods beginning prior to 1 July 2028 that involve assurance work performed at a value chain component:

   (a) A group sustainability assurance firm or component practitioner that performs assurance work at a value chain component shall apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence in relation to such assurance work;

   (b) If the group sustainability assurance firm intends to use the assurance work of another practitioner, the group sustainability assurance firm shall be satisfied that the other practitioner is independent, and in that regard may rely on a statement of independence in accordance with Part 4B or other professional requirements relating to independence; and

   (c) The group sustainability assurance firm shall publicly disclose that independence provisions applicable to assurance work performed at value chain components under Part 5 (the IESSA (NZ)) have not been applied, pursuant to a deferred effective date for such provisions as specified in the IESSA (NZ).

2. If a firm has not served as the auditor of the financial statements, the requirement in paragraph R5540.10a also applies where the firm will perform a sustainability assurance engagement on sustainability information for accounting periods beginning prior to 15 December 2026.

3. For non-assurance services engagements a firm or network firm has entered into with a sustainability assurance client before 15 December 2026, which would be prohibited under Section 5600 and its subsections but for which work has already commenced, the firm or network firm may continue such engagements in accordance with the original engagement terms for no more than one reporting cycle.

4. A firm might apply the provisions before their application date. In such a case, if the firm intends to use the assurance work of another practitioner performed for a standalone or group sustainability assurance engagement and the other practitioner has complied with the independence provisions of Part 4B in relation to that work, the firm may treat a confirmation or statement of such compliance from the other practitioner as satisfying the requirements of Section 5406 of Part 5.

Made at Wellington on DATE

John Kensington

Chair

External Reporting Board

EXPLANATORY AND OTHER INFORMATION

These notes and other information are not part of the standard

Explanatory note

This standard is the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand).*

This standard is the New Zealand equivalent of *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA) and results from the addition of Part 5 – International Ethics Standards for Sustainability Assurance (Including International Independence Standards) and revisions to the international standard on using the work of external experts ~~and~~for both audits and reviews and sustainability assurance engagements~~ the addition of Part 5 – International Ethics Standards for Sustainability Assurance (Including International Independence Standards).~~

This standard was approved by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board.

This ~~-~~standard revokes the PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued in December 2018. However, that standard continues to apply in relation to accounting periods that begin before 15 December 2026 as if it had not been revoked. (see Legislation Act 2019).

~~**NEW ZEALAND PREFACE**~~

~~Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners(including International Independence Standards) (New Zealand), ("the Code"), issued by the NZAuASB is based on the International Code of Ethics for Professional Accountants (including International Independence Standards ("the International Code"). The International Code is issued by the International Ethics Standards Board for Accountants. It is published by the International Federation of Accountants (IFAC) and used with permission of IFAC, as it applies to assurance practitioners in New Zealand. New Zealand additions and deletions are prefixed with NZ in the Code.~~

The Code is based on a number of fundamental principles that express the basic tenets of professional and ethical behaviour and conduct. Assurance practitioners must abide by these fundamental principles when performing assurance engagements.

The *International Independence Standards (New Zealand)* set out requirements that apply to all entities and all assurance practitioners. Small entities and small firms, in certain circumstances, may face difficulties implementing the requirements. Many of the examples provided of actions that might reduce the threat may not be available to small entities and small firms. For example, involving individuals within the firm who are not members of the assurance team in, for example, providing non-assurance services to an assurance client, may not reduce the threats to independence to an acceptable level given the likely closeness of relationships of staff within small firms.

Conformity with International Code of Ethics for Professional Accountants (including International Independence Standards)

This standard conforms to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (International Code), issued by the IESBA.

The principles and requirements of PES 1 are consistent with the International Code except for the following:

(a) The addition of a scope and application section.

(b) PES 1 generally refers ~~has a narrower scope and is intended to apply to all~~to assurance practitioners appointed or engaged to perform an assurance engagement. The International Code ~~applies~~ refers to ~~all~~ professional accountants.

(c) PES 1 refers to assurance practitioners whereas the International Code refers to professional accountants. Sections 321 *Second Opinions,* 280 *Tax Planning Activities,* and 380 *Tax Planning Services* has been deleted by the NZAuASB as they do not relate to assurance engagements.

(d) The addition of paragraphs and definitions prefixed as NZ in PES 1. The additional definitions are of assurance services, assurance practitioner, FMC reporting entity considered to have a higher level of public accountability, offer document, and proposed assurance practitioner.

(e) PES 1 tailors the following IESBA defined terms in the New Zealand environment: ~~assurance client,~~ audit client, group audit client and public interest entity.

(f) NZ 310.9.1 requires the assurance practitioner to disclose, in writing, the nature of the conflict of interest and the related safeguards applied to eliminate the threat or reduce it to an acceptable level to all clients or potential clients affected by the conflict. NZ R310.9.2 requires the assurance practitioner to obtain the clients consent, in writing, to perform the assurance services when safeguards are applied. The International Code states that disclosure is generally necessary.

(g) NZ R310.12.1 requires an assurance practitioner to disengage from the relevant assurance engagement if adequate disclosure to the client of a conflict of interest is restricted as a result of confidentiality requirements. The International Code allows the engagement to proceed in limited circumstances.

(h) The requirements of section 360 of the International Code (paragraphs R360.10 – NZ 360.28 A1.1) that apply only to audits of financial statements have been broadened to apply to audit and review engagements.

International Independence ~~requirements~~Standards (New Zealand) (Part 4)

(i) Part 4A describes the independence requirements for audits and reviews of historical financial information. NZ 400.2.1 extends the scope of Part 4A to cover all assurance engagements in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information or a combination of these.

(j) NZ R400.19.1 and NZ 900.13.1 require that when an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate. This is consistent with the Australian Code (para. AUST R400.19.1 and AUST R900.12.1).

~~NZ R410.3 and NZ R905.3.1 emphasise that an assurance practitioner shall end or decline an engagement where the total fees from the client represent a large proportion of the total fees of the firm and safeguards have not eliminated or reduced the threats to an acceptable level.~~

(k) NZ R400.22.1 states that when considering the factors in 400.14 and the categories in R400.22, a firm shall treat an entity as a public interest entity, when it meets the tier 1 criteria in accordance with XRB A1 and is not eligible to report in accordance with the accounting requirements of another tier.

(l) NZ R523.3.1 specifically prohibits a partner or employee of a firm or a network firm from serving as director, officer, liquidator or receiver of an audit client of the firm .

(m) NZ R604.12 requires the firm to document the factors considered and conclusions reached in determining that the tax advisory and tax planning services satisfy the conditions described in paragraph 604.12 A2.

Part 5 – International Ethics Standards For Sustainability Assurance (Including International Independence Standards) (the IESSA)

(n) Various amendments have been added to Part 5 that replicate amendments made in Parts 1-4, including:

a. application material to advise practitioners to seek legal advice when disclosing confidential information (NZ 5114.3 A1.1)

b. amendments relating to the disclosure of safeguards (NZ R5310.9.1, NZ R5310.9.2 and NZ R5310.12.1) and service as a director or officer (NZ R5523.3.1)

c. amendments relating to a prohibition for an assurance practitioner to accept or pay referral fees (NZR5330.5)

d. a requirement, when an assurance practitioner identifies multiple threats to independence, which individually may not be significant, to evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level (NZ R5400.19.1)

e. additional application material regarding the provision of tax advisory planning and advisory services (NZ 5604.12.A2.1).

Comparison with Australian Code of Ethics

(a) In Australia, the Australian Professional and Ethical Standards Board (APESB) has issued APES 110 Code of Ethics for Professional Accountants (including Independence Standards). The principles and requirements of APES 110 and the IESBA Code are consistent, except for the matters outlined in APES 110.

(b) APES 110 generally refers to Members whereas the IESBA Code refers to professional accountants

(c) For the purposes of the International Code and the Australian Code of Ethics for Professional Accountants, public interest entities (PIE) include: a publicly traded entity; an entity one of whose main functions is to take deposits from the public; an entity one of whose main functions is to provide insurance to the public; or an entity specified as such by law, regulation or professional standards to meet the purpose of a public interest entity described in the standard.

(d) The Australian Code of Ethics for Professional Accountants (para. AUST R400.24) also requires firms to determine whether to treat additional entities as public interest entities and lists entities in Australia which will generally be considered to be public interest entities.

For the purposes of PES 1, public interest entities include any entity that meets the Tier 1 criteria in accordance with XRB A1[11] and is not eligible to report in accordance with the accounting requirements of another tier.

[11] XRB A1 *Application of the Accounting Standards Framework*.

Copyright

The standard is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Ethics Standards Board for Accountants (IESBA). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at http://www.ifac.org or by writing to permissions@ifac.org.

For any enquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at https://www.xrb.govt.nz/about-xrb/contact-us/

ISBN [Insert ISBN here]

History of Amendments

Table of instruments – PES 1

This table lists the instruments amending this standard.

Instrument	Date made	Application date

Minimum Legislative Information

This Standard is secondary legislation published under the Legislation Act 2019.

Title	Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*
Principal or amendment	Principal
Consolidated version	No
Empowering Act and provisions	Section 12(b) of the Financial Reporting Act 2013.
Replacement empowering Act and provision	
Maker name	External Reporting Board
Administering agency	External Reporting Board
Date made	12 December 2025
Publication date	18 December 2025
Notification date	18 December 2025
Commencement date	This standard takes effect on 15 January 2026.
End date	
Consolidation as at date	
Related instruments	

Note: This draft standard includes text shaded in grey. This text relates to amendments t Amendments arisin... 4.6 a
red relating to amendments to PES 3 is a change to the ED.

This secondary legislation is administered by the External Reporting Board.
For more information please see:
Website: www.xrb.govt.nz
Contact phone: +64 4 550 2030
Contact address: Level 6/154 Featherston St, Wellington, 6011

There is an explanatory note at the end of this standard that sets out how and from when this amending standard operates.

Amendments resulting from the issue of International Standard on Sustainability Assurance (New Zealand) 5000, *General Requirements for Sustainability Assurance Engagement*

This Amending Standard is made under section 12(b) of the Financial Reporting Act 2013 by the External Reporting Board after complying with section 22 of that Act.

CONTENTS

Page

Title **2**

Commencement **2**

Interpretation **2**

Application **2**

Transitional, savings, and related provisions **3**

Introduction **3**

Amendments to New Zealand Standard on Assurance Engagements 1, *Assurance Engagements over Greenhouse Gas Emissions Disclosures* **3**

Amendments to Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* **5**

Amendments to Professional and Ethical Standard 4, *Engagement Quality Reviews* **6**

Amendments to International Standard on Assurance Engagements (New Zealand) 3000, *Assurance Engagements Other Than Audits Or Reviews Of Historical Financial Information* **6**

Amendments to International Standard on Auditing (New Zealand) 720, *The Auditor's Responsibility Relating to Other Information* **7**

Amendment to International Standard on Auditing (New Zealand) 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* **8**

Amendments to External Reporting Board Standard Au1 *Application of Auditing and Assurance Standards (Legislative Update).* **8**

Schedule 1 **9**

Title

0.1 This is the Amendments resulting from the issue of International Standard on Sustainability Assurance (New Zealand) 5000, *General Requirements for Sustainability Assurance Engagement.*

Commencement

0.2 This amending standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019 (see section 27 of the Financial Reporting Act 2013).

This note is not part of the amending standard.
This amending standard was published on [18 December 2025] and takes effect on [15 January 2026].

Interpretation

0.3 In this standard:

- NZ SAE 1 means the New Zealand Standard on Assurance Engagements 1, *Assurance Engagements over Greenhouse Gas Emissions Disclosures*.
- PES 3 means the Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.
- PES 4 means the Professional and Ethical Standard 4, *Engagement Quality Reviews*.
- ISAE (NZ) 3000 means the International Standard on Assurance Engagements (New Zealand) 3000, *Assurance Engagements Other Than Audits Or Reviews Of Historical Financial Information*.
- ISA (NZ) 720 means the International Standard on Auditing (New Zealand) 720, *The Auditor's Responsibility Relating to Other Information.*
- ISA (NZ) 805 means the International Standard on Auditing (New Zealand) 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.*
- ISSA (NZ) 5000 means the International Standard on Sustainability Assurance (New Zealand) 5000, *General Requirements for Sustainability Assurance Engagement.*
- XRB Au1 means the External Reporting Board Standard Au1 *Application of Auditing and Assurance Standards (Legislative Update).*

Application

0.4 The accounting periods in relation to which this standard commences to apply are:

- for an **early adopter**, those accounting periods, following and including, the **early adoption accounting period**.
- for any other auditor, assurance practitioner or firm, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

0.5 In paragraph 0.4:

early adopter means an auditor, assurance practitioner or firm that applies this standard for an early adoption accounting period.

early adoption accounting period means the accounting period:

- that begins before the mandatory date but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and
  - for which the early adopter:
  - first applies this standard for an audit engagement or an assurance engagement; and
  - discloses in the auditor's report or the assurance report for that accounting period that this standard has been applied for that period.

mandatory date means 15 December 2026.

Transitional, savings, and related provisions

0.6 The transitional, savings, and related provisions (if any) set out in Schedule 1 have effect according to their terms.

Introduction

1. This amending standard makes changes to NZ SAE 1, *Assurance Engagements over Greenhouse Gas Emissions Disclosures;* Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; Professional and Ethical Standard 4, *Engagement Quality Reviews*; ISAE (NZ) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*; ISA (NZ) 720, *The Auditor's Responsibility Relating to Other Information*; ISA (NZ) 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; XRB Au1, *Application of Auditing and Assurance Standards.*
2. The amendments are to reflect amendments arising due to the adoption of International Standard on Sustainability Assurance (New Zealand) 5000, *General Requirements for Sustainability Assurance Engagement.*
3. Underline and strikethrough are used to indicate changes. Footnote numbers within these amendments do not align with the actual application paragraph and footnote numbers of the standards that will be amended, and reference should be made to the relevant compiled standard.

Amendments to New Zealand Standard on Assurance Engagements 1, *Assurance Engagements over Greenhouse Gas Emissions Disclosures*

…

Requirements

Applicable Assurance Standards

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*[1] ~~or~~ ~~ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements or*~~ *ISSA (NZ) 5000 General Requirements for Sustainability Assurance Engagements*[2]. Is not required

[1] ISO 14064-3: 2019 is available for purchase from the Standards NZ website: https://www.standards.govt.nz/shop/iso-14064-32019/. We understand this ISO is subject to revision five years after being issued.

[2] International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements for Sustainability Assurance Engagements (ISSA (NZ) 5000)

to, but may, comply with PES 1[3], and shall comply with the fundamental principles and independence requirements set out in paragraphs 13 to 23 of this standard.

(b) Is not required to, but may, comply with PES 3[4], and shall comply with the quality management requirements set out in paragraphs 62 to 72 of this standard.

(c) Is not required to, but may, comply with PES 4[5], and shall comply with the quality reviewer requirements set out in paragraph 73 to 78 of this standard.

…

Use of the Work of Others

26. If the assurance practitioner intends to use the work of other individuals or organisations who have expertise in matters related to GHG emissions, the assurance practitioner shall:

(a) Evaluate whether that individual or organisation has the necessary competence, capabilities and objectivity for the assurance practitioner's purposes;

(b) When evaluating objectivity, enquire with the individual or organisation regarding interests and relationships that may create a threat to that individual or organisation's objectivity; (Ref: Para. A33)

(c) Obtain a sufficient understanding of the field of expertise of the individual or organisation to determine the nature, scope and objectives of that individual or organisation for the assurance practitioner's purposes;

(d) Agree with the individual or organisation the nature, scope and objectives of their work; and

(e) Evaluate the adequacy of the work performed by the individual or organisation for the assurance practitioner's purposes. (Ref. Para. A34–A35)

26A 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 the assurance practitioner plans to use an assurance report of another assurance practitioner that has been designed for use by user entities and their assurance practitioner across a value chain (a one-to-many report), the assurance 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.

27. If the assurance practitioner intends to use the work of another assurance practitioner, who is not subject to their assurance organisation's system of quality control, the assurance practitioner shall follow the requirements of paragraph 26, where relevant, and shall perform the following additional steps:

(a) Determine that the other assurance practitioner is independent of the assurance client and GHG disclosures;

(b) Evaluate whether the other assurance practitioner's system of quality management related to that assurance work is suitable for their purposes; and

---

[3] Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))*

[4] Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

[5] Professional and Ethical Standard 4 *Engagement Quality Reviews*

(c) Communicate with that practitioner about the findings from their work.

…

Amendments to Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

Requirements

…

Specified Resources

34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)

…

NZ34(f) The firm establishes policies or procedures that address engagement quality reviews in accordance with PES 4, and require an engagement quality review for:

(i) Audits of financial statements of FMC reporting entities considered to have a higher level of public accountability;

(ii) An assurance engagement for the disclosures within the climate statements relating to greenhouse gas emissions required by the Financial Markets Conduct Act 2013 to be the subject of an assurance engagement.

….

Application and Other Explanatory Material

Scope of this PES (Ref: Para. 3–4)

A1. Other pronouncements of the NZAuASB, ~~including ISRE (NZ) 2400 (Revised) and ISAE (NZ) 3000 (Revised),~~ also establish requirements for the engagement partner or engagement leader, as applicable, for the management of quality at the engagement level, including ISRE (NZ) 2400 (Revised) and ISAE (NZ) 3000 (Revised) for the engagement partner, and ISSA (NZ) 5000 for the engagement leader.

Engagement Documentation (Ref: Para. 31(f))

A83. Law, regulation or professional standards may prescribe the time limits by which the assembly of final engagement files for specific types of engagements are to be completed. Where no such time limits are prescribed in law or regulation, the time limit may be determined by the firm. In the case of engagements conducted under the ISAs (NZ), ISSA (NZ)s, ISAEs (NZ) or SAEs, an appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the engagement report.

…

A85. Law, regulation or professional standards may prescribe the retention periods for engagement documentation. If the retention periods are not prescribed, the firm may consider the nature of the engagements performed by the firm and the firm's circumstances, including whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. In the case of engagements conducted under the ISAs (NZ), ISSAs (NZ), ISAEs (NZ) or SAEs, the retention period is ordinarily no shorter than five years from the date of the engagement report, or, if later, the date of the auditor's report on the group financial statements, when applicable.

…

Amendments to Professional and Ethical Standard 4, *Engagement Quality Reviews*

Application and Other Explanatory Material

…

Performance of the Engagement Quality Review (Ref: Para. 24–27)

Engagement Partner Responsibilities in Relation to the Engagement Quality Review (Ref: Para. 24(b))

…

A26. ISAE (NZ) 3000 (Revised) and ISSA (NZ) 5000 also establishes requirements for the engagement partner in relation to the engagement quality review.

…

Amendments to International Standard on Assurance Engagements (New Zealand) 3000, *Assurance Engagements Other Than Audits Or Reviews Of Historical Financial Information*

Introduction

1. This International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) deals with assurance engagements other than audits or reviews of historical financial information or assurance engagements on sustainability information, which are dealt with in International Standards on Auditing (New Zealand) (ISAs (NZ)), International Standard on Review Engagement (New Zealand) (ISRE (NZ)) and New Zealand Standard on Review Engagement (NZ SRE) and International Standards on Sustainability Assurance (New Zealand) (ISSAs (NZ)) respectively. (Ref: Para. A21-A22)

…

Scope

5. This ISAE (NZ) covers assurance engagements other than audits or reviews of historical financial information or assurance engagements on sustainability information. Where a subject-matter specific ISAE (NZ) or Standard on Assurance Engagements (SAE) is relevant to the subject matter of a particular engagement, that ISAE (NZ) or SAE applies in addition to this ISAE (NZ). (Ref: Para. A21–A22)

…

Application and Other Explanatory Material

…

Conduct of an Assurance Engagement in Accordance with ISAE

Complying with Standards that Are Relevant to the Engagement (Ref: Para. 1, 5, 15)

A21. This ISAE (NZ) includes requirements that apply to assurance engagements (other than audits or reviews of historical financial information or assurance engagements on sustainability information), including engagements in accordance with a subject matter-specific ISAE (NZ) or SAE. In some cases, a subject matter-specific ISAE (NZ) or SAE is also relevant to the engagement. A subject matter-specific ISAE (NZ) or SAE is relevant to the engagement when

the ISAE (NZ) or SAE is in effect, the subject matter of the ISAE (NZ) or SAE is relevant to the engagement, and the circumstances addressed by the ISAE (NZ) or SAE exist.

A22. The ISAs (NZ), ISRE (NZ) and NZ SRE have been written for audits and reviews of historical financial information, respectively, and do not apply to such other assurance engagements. They may, however, provide guidance in relation to the engagement process generally for assurance practitioners undertaking an assurance engagement in accordance with this ISAE (NZ).

…

Amendments to International Standard on Auditing (New Zealand) 720, *The Auditor's Responsibility Relating to Other Information*

Application and Other Explanatory Material

…

Definitions

Annual Report (Ref: Para. 12(a))

…

A3. In some cases, an entity's annual report may be a single document and referred to by the title "annual report" or by some other title. In other cases, law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity's operations and the entity's financial results and financial position as set out in the financial statements (i.e., an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose. For example, depending on law, regulation or custom in a particular jurisdiction, one or more of the following documents may form part of the annual report:

- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report).
- Chairman's statement.
- Corporate governance statement.
- Internal control and risk assessment reports.
- Sustainability reports or other sustainability-related information.

…

A5. An annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as standalone documents, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom), and that, therefore, are not other information within the scope of this ISA (NZ), include~~: S~~ separate industry or regulatory reports (for example, capital adequacy reports), such as may be prepared in the banking, insurance, and pension industries or special purpose reports addressing certain kinds of sustainability information.

- ~~Corporate social responsibility reports.~~
- ~~Sustainability reports.~~
- ~~Diversity and equal opportunity reports.~~

- ~~Product responsibility reports.~~
- ~~Labour practices and working conditions reports.~~

…

Amendment to International Standard on Auditing (New Zealand) 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

Application and Other Explanatory Material

…

Scope of this ISA (Ref: Para. 1, 6(c))

…

A4. A reasonable assurance engagement other than an audit of historical financial information is performed in accordance with International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3000 (Revised)~~.~~[6] or International Standard on Sustainability Assurance (New Zealand) (ISSA (NZ)) 5000,[7] as applicable.

…

Amendments to External Reporting Board Standard Au1 *Application of Auditing and Assurance Standards (Legislative Update).*

APPENDIX 4

Other Assurance Engagement Standards

This appendix is an integral part of the Standard

This appendix lists the standard to be applied in conducting other assurance engagements.

…

ISSA (NZ) 5000 General Requirements for Sustainability Assurance Engagements

APPENDIX 6

ISSA (NZ) 5000 to be added to the diagram: Overview of the Auditing and Assurance Standards of the XRB, and the Engagements Governed by the Standards.

[6] ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

[7] ISSA 5000*, General Requirements for Sustainability Assurance Engagements*

Schedule 1

Transitional, savings, and related provisions

Part 1 Provisions relating to this standard as made

There are no transitional, savings, or related provisions in this standard as made.

Made at Wellington on DATE

John Kensington

Chair

External Reporting Board

Explanatory and other information

These notes and other information are not part of the amending standard

Explanatory note

This amending standard is the *Amendments resulting from the issue of International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements for Sustainability Assurance Engagement.*

This amending standard makes changes to NZ SAE 1, *Assurance Engagements over Greenhouse Gas Emissions Disclosures;* Professional and Ethical Standard 3, *Quality Management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements*; Professional and Ethical Standard 4, *Engagement Quality Reviews*; ISAE (NZ) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*; ISA (NZ) 720, *The Auditor's Responsibility Relating to Other Information*; ISA (NZ) 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; XRB Au1, *Application of Auditing and Assurance Standards*.

The amendments are to reflect amendments arising due to the adoption of International Standard on Sustainability Assurance (New Zealand) 5000, *General Requirements for Sustainability Assurance Engagement.*

Copyright

The amending standard is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (IAASB). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from the IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any enquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at https://www.xrb.govt.nz/about-xrb/contact-us/

ISBN [Insert ISBN here]

Minimum Legislative Information

This amending standard is secondary legislation published under the Legislation Act 2019.

Title	Amendments resulting from the issue of International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements for Sustainability Assurance Engagement
Principal or amendment	Amendment
Consolidated version	No
Empowering Act and provisions	Section 12(b) of the Financial Reporting Act 2013.
Replacement empowering Act and provision	
Maker name	External Reporting Board
Administering agency	External Reporting Board
Date made	12 December 2025
Publication date	18 December 2025
Notification date	18 December 2025
Commencement date	This standard takes effect on 15 January 2026.
End date	
Consolidation as at date	
Related instruments	NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures* Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* Professional and Ethical Standard 4, *Engagement Quality Reviews* ISAE (NZ) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ISA (NZ) 720, *The Auditor's Responsibility Relating to Other Information* ISA (NZ) 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* XRB Au1, *Application of Auditing and Assurance Standards*

GS 007
(~~October 2011~~April 2026)

Guidance Statement GS 007
Audit Implications of the Use of Service Organisations for Investment Management Services

Issued by the **Auditing and Assurance Standards Board**

Australian Government
Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

This Guidance Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Contact Details

Auditing and Assurance Standards Board
Phone: (03) 8080 7400
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204, Collins Street West
Melbourne Victoria 8007
AUSTRALIA

COPYRIGHT

© 2025 Auditing and Assurance Standards Board (AUASB). The text, graphics and layout of this Guidance Statement are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source as being the AUASB.

Requests and enquiries concerning reproduction and rights for commercial purposes should be addressed to the Director-National, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007 or sent to enquiries@auasb.gov.au. Otherwise, no part of this Guidance Statement may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

ISSN 1833-7600

Guidance Statement GS 007 ***Audit Implications of the Use of Service Organisations for Investment Management Services***

Important Note

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on the application of AUASB Standards and, where relevant, legislation, regulation or other authoritative publication, to assist auditors and assurance providers to comply with Standards. Guidance Statements are intended to assist auditors and assurance practitioners in applying an existing standard or standards of general application to particular circumstances or specialised industries/sectors.

Guidance Statements are designed to provide guidance to auditors and assurance practitioners to achieve the objective(s) of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of a specific AUASB Standard(s); and where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement.

Guidance Statements, whilst formally approved and issued by the AUASB, do not establish new principles or amend existing standards. Guidance Statements therefore do not include any additional requirements or extend or vary the existing requirements of any AUASB Standards and are not legally enforceable.

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* provides guidance to auditors on <type here>. It is not, and is not intended to be, a substitute for compliance with relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

CONTENTS

AUTHORITY STATEMENT

CONFORMITY WITH INTERNATIONAL PRONOUNCEMENTS

Paragraphs

Application 1
Issuance Date 2
Introduction 3-6
Types of Reports 7-13
Table 1: Service Auditor's Reports
Services Relevant to this Guidance Statement 14-19
A: GUIDANCE FOR THE USER AUDITOR 20
Using a Type 1 or Type 2 Report on Controls 21-30
Using a Service Auditor's Report on Financial Information 31-38
Materiality for Service Auditor's Reports on Financial Information 39-40
Communicating with the Service Auditor 41-44
Communicating With Those Charged With Governance of the User Entity 45-48
Reporting by the User Auditor 49-50
B: GUIDANCE FOR THE SERVICE AUDITOR
Types of Engagements 51
Engagements to Report on Controls
Nature of Engagement 52
Acceptance and Continuance of Engagements to Report on Controls 53-54
Ethical Requirements 55-57
Responsibilities of the Service Organisation 58-61
Assessing the Suitability of the Criteria 62-64
Obtaining an Understanding of the Service Organisation's System 65
Conducting the Assurance Engagement to Report on Controls 66-67
The Service Auditor's Assurance Report 68-72
Engagements to Report on Financial Information
Nature of Engagements 73-75
Acceptance and Continuance of Audit Engagements to Report on Financial Information 76-78
Ethical Requirements 79-83
Materiality to be Applied by the Service Auditor 84-85
The Service Auditor's Report on Financial Information 86
Information Excluded from the Service Auditor's Report 87

Reporting of Matters of Governance Interest Arising in an Audit Engagement on Financial Information.....88-90

Appendix 1: Example Engagement Letters

Appendix 2: Service Organisation's Type 2 Controls Assertion and Description of the System

Appendix 3: Minimum Control Objectives for each Investment Management Service

Appendix 4: Service Auditor's Type 2 Assurance Report

Appendix 5: Service Auditor's Description of the Nature, Timing and Extent of Tests Applied to Controls

Appendix 6: Examples of Service Auditor's Reports on Financial Information

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to achieve the objectives of the audit or other assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new requirements.

Dated: <TypeHere>

D Niven
Chair - AUASB

Conformity with International Pronouncements

There is no pronouncement issued by the International Auditing and Assurance Standards Board equivalent to this Guidance Statement.

GUIDANCE STATEMENT GS 007

Audit Implications of the Use of Service Organisations for Investment Management Services

Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to:

   (a) auditors (user auditors) of a financial report of an entity (user entity) which uses a third party service organisation to provide investment management services; and

   (b) auditors (service auditors) of those service organisations, who provide reports on controls or financial information which may be used as audit evidence in the audit of the user entity's financial report.

Issuance Date

2. This Guidance Statement is issued on 25 October 2011 by the AUASB and replaces Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*, issued in March 2008. It is operative for reporting periods commencing on or after 1 January 2012.

Introduction

3. This Guidance Statement provides guidance to:

   (a) user auditors in applying Auditing Standard ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*, when using reports on controls at a service organisation, and other Australian Auditing Standards, when using service auditor's reports on financial information as audit evidence relating to investment management services provided by the service organisation; and

   (b) service auditors in applying Standard on Assurance Engagements ASAE 3402 *Assurance Reports on Controls at a Service Organisation*, when engaged to report on controls, and other Australian Auditing Standards, when engaged to report on financial information, relating to components of user entities for which investment management services are provided by the service organisation.

4. Part A of this Guidance Statement (paragraphs 20-50) provides guidance to user auditors but is to be read in conjunction with, and is not a substitute for referring to the requirements and application material contained in, ASA 402, when using a service auditor's report on controls, or Australian Auditing Standards, when using a service auditor's report on financial information. This Guidance Statement is applicable to user auditors when:

   (a) the services provided are part of the user entity's information system, including related business processes, relevant to financial reporting;[1]

   (b) audit evidence required by the user auditor regarding internal controls and/or assertions is located at the service organisation; and

[1] See ASA 402, paragraph 3.

(c) reports on controls at the service organisation and/or a service auditor's report on specified assertions or a financial statement of the user entity's balances or transactions relating to the services provided by the service organisation are available.

5. Part B of this Guidance Statement (paragraphs 51-90) provides guidance to the service auditor but is to be read in conjunction with, and is not a substitute for referring to the requirements and application material contained in ASAE 3402, when reporting on controls, and Auditing Standard ASA 805,[2] when reporting on financial information.

6. ASA 402 does not apply to services provided by financial institutions which are limited to processing of transactions that are specifically authorised by the user entity.[3] Therefore reports prepared under ASAE 3402 are not usually necessary for banks processing clients' account transactions or brokers processing clients' securities transactions. Nor does ASA 402 apply to transactions relating to financial interests in other entities when those interests are accounted for and reported to interest holders. Therefore, reports under ASAE 3402 are not generally necessary for unitised funds or other investments of an entity for which prices are publicly available. However, unitised funds or other investments may use service organisations to provide investment management services, in which case it is appropriate for the service organisation to provide a type 1 or 2 report. Unitised funds and unit pricing of those funds are addressed in the control objectives within this Guidance Statement only in the context of service organisations which provide investment management services to unitised funds.

Types of Reports

7. This Guidance Statement provides guidance for the preparation and use as audit evidence of the following reports:

(a) Reports on the description and design of controls at a service organisation (type 1 report) or description, design and operating effectiveness of controls at a service organisation (type 2 report), relating to the service organisation's system over the investment management services provided to user entities, prepared in accordance with ASAE 3402.

(b) Service auditor's reports on financial information, prepared in accordance with ASA 805,[4] comprising either:

(i) a service auditor's report on specified assertions regarding balances or transactions of the user entity reported in a financial statement by the service organisation, which provides investment management services, ("service auditor's report on specified assertions"); or

(ii) a service auditor's report on a financial statement of the user entity's balances or transactions ("statement") reported by the service organisation which provides investment management services ("service auditor's report on a statement").

8. Type 1 and 2 reports on controls comprise:[5]

(a) A service organisation's description of its investment management services system, including identification of:

---

2 See ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.*

3 See ASA 402, paragraph 5.

4 ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* is also applicable if the financial information is a financial report or complete set of financial statements prepared in accordance with a special purpose framework.

5 See ASAE 3402, paragraph 9.

(i) the services covered;

(ii) the date or period to which the description relates;

(iii) control objectives, including the control objectives listed in Appendix 3 of this Guidance Statement, for the relevant investment management services provided; and

(iv) related controls.

(b) A written assertion by the service organisation that, in all material respects, and based on suitable criteria:

(i) the description fairly presents the service organisation's system as designed and implemented;

(ii) the controls related to the control objectives stated in the service organisation's description of its system were suitably designed as at the specified date, for a type 1 report, or throughout the period, for a type 2 report; and

(iii) for a type 2 report, the controls operated effectively throughout the specified period.

(c) A service auditor's assurance report that conveys reasonable assurance about the service organisation's assertions, including for type 2 reports, a description of the tests of controls and the results thereof.

9. ~~The use of a~~A type 1 report is used by a user auditor ~~is limited~~ to understanding the entity in accordance with Auditing Standard ASA 315,[6] whereas a type 2 report may also be used by a user auditor in responding to assessed risks in accordance with Auditing Standard ASA 330.[7] A type 2 report is not necessary, if the user auditor concludes that the risk of material misstatement will not be affected by the controls at the service organisation, or that it is more appropriate to gather the evidence required by other means, including obtaining a service auditor's report on financial information.

10. Other reports may be required by the user entity as set out in the contract and/or service level agreement for purposes such as monitoring the performance of the service organisation, however the reports covered by this Guidance Statement are limited to those that may be used by user auditors as audit evidence for the audit of the user entity's financial report.

11. The following table, entitled *Table 1: Service Auditor's Reports*, outlines the context in which each of these reports is prepared and used as audit evidence. Table 1 lists the reports included in this Guidance Statement, the subject matter covered by each report, the circumstances for which each report may be useful to user auditors, standards relevant to the preparation and use of each report and references to appendices containing examples of each report and related engagement letters.

12. The guidance in this Guidance Statement is based on engagements to provide an opinion based on reasonable assurance, with respect to controls or financial information. It does not apply to an engagement to provide a review conclusion on controls based on limited assurance, however, it may be adapted, as necessary in the circumstances, to an engagement to provide limited assurance on specified assertions or a Statement. A review conclusion from the service auditor may be appropriate where the user auditor is engaged to perform a review of the user entity's financial report. The service auditor exercises professional judgement in

[6] See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.*
[7] See ASA 330 *The Auditor's Responses to Assessed Risks.*

applying this Guidance Statement to a review and, when reporting on specified assertions or a Statement, complies with the requirements of relevant standards on review engagements.

Table 1: Service Auditor's Reports

Title of Report	**Subject Matter Covered by Report**	**Circumstances for Which Report is Used by User Auditors**	**Relevant Standards**	**Appendix Reference for Examples**
Reports on controls				
1. Type 1 report[8]	Description and design of controls at the service organisation.	Planning: Obtaining an understanding of the user entity and its environment, including controls over services provided by the service organisation, in order to assess the risk of material misstatement and design further audit procedures. This report cannot be relied on to reduce substantive procedures.	User Auditor: ASA 402 and ASA 315 Service Auditor: ASAE 3402	Engagement letter and service auditor's type 1 report: No example provided as this report is not likely to meet the needs of all user auditors.
2. Type 2 report[9]	Description, design, and operating effectiveness of controls at the service organisation.	Planning: Obtaining an understanding of the user entity and its environment: as for type 1 reports. Responding to the assessed risks of material misstatement when evidence is required of the operating effectiveness of controls over the services provided at the service organisation.	User Auditor: ASA 402 and ASA 330 Service Auditor: ASAE 3402	Engagement letter: Appendix 1 Example 1. Service Organisation's assertion and description of its system: Appendix 2. Minimum Control Objectives: Appendix 3. Service auditor's type 2 report: Appendices 4 and 5.
Reports on financial information				
3. Service auditor's report on specified assertions[10]	Specified assertions regarding balances or transactions of the user entity reported in a Statement.	Require evidence from procedures conducted at the service organisation regarding certain assertions with respect to balances or transactions of the user entity, reported in a Statement.	Service Auditor: ASA 805	Engagement letter: Appendix 1 Example 2 Service auditor's report: Appendix 6 Example 1
4. Service auditor's	Balances or transactions of the	Require evidence from procedures conducted at the service organisation regarding the balances or transactions of the user entity, reported in a Statement.	Service Auditor: ASA 805	Engagement letter: Appendix 1 Example 3

Title of Report	**Subject Matter Covered by Report**	**Circumstances for Which Report is Used by User Auditors**	**Relevant Standards**	**Appendix Reference for Examples**
report on a Statement[11]	user entity reported in a Statement.			Service auditor's report: Appendix 6 Example 2

[8] See paragraph 8 of this Guidance Statement.
[9] See paragraph 8 of this Guidance Statement.
[10] See paragraph 7(b)(i) of this Guidance Statement.
[11] See paragraph 7(b)(ii) of this Guidance Statement.

13. The user auditor may request the user entity to obtain from the service auditor, or directly engage the service auditor to provide, a report on agreed-upon procedures. Agreed-upon procedures engagements may be appropriate in certain circumstances to provide evidence that the user auditor requires, for example when:

- A type 2 report is provided, however the user auditor requires more evidence with respect to controls over a specified area, such as unit pricing.
- Provision of a service auditor report on controls is not agreed in the service level agreement or contract, but the user auditor nevertheless requires selected controls to be tested at the service organisation.
- A service auditor's report on specified assertions is provided for assets under the custody of a custodian, but does not address assets outside the custody of the custodian for which the custodian provides investment administration services. Additional agreed-upon procedures are performed to assist the user auditor to obtain evidence on the existence or valuation of the assets outside the custody of the custodian.
- A service auditor's report on specified assertions is provided as described in this Guidance Statement, however further audit procedures are required by the user auditor in obtaining sufficient appropriate audit evidence with respect to particular assertions. For example, with respect to the assertion of valuation, agreement of valuation input variables to source data may be required by the user auditor.

  Such engagements are conducted under Standards on Related Services[12] and no further guidance on agreed-upon procedures engagements is provided in this Guidance Statement

Services Relevant to this Guidance Statement

14. This Guidance Statement has been developed specifically for circumstances where service organisations provide investment management services to user entities, where those services and the controls over them, are part of the user entity's information system, including business processes, relevant to financial reporting,[13] and as a result are relevant to the audit of a user entity's financial report. The Investment Management Services addressed in this Guidance Statement are:

- Custody.
- Asset Management.
- Property Management.
- Superannuation Member Administration.
- Investment Administration.
- Registry.

  Each of these services is defined in Appendix 3.

15. Controls over the calculation of unit pricing are not included as part of the services addressed in this Guidance Statement as reliance can generally be placed on the publicly available unit price, where appropriate, with additional procedures to assess the bona fides of the fund such as sighting audited financial statements of the fund, for the assertion of valuation for investments in unitised funds. If user auditors require assurance over unit pricing, for

[12] See ASRS 4400 *Agreed-upon Procedures Engagements to Report Factual Findings*.
[13] The circumstances under which a service organisation's services are part of a user entity's information system, including business processes, relevant to financial reporting, are provided in ASA 402, paragraph 3.

governance or compliance purposes, they may request that control objectives and controls for unit pricing are included in the service organisation's description of the system and audited by the service auditor.

16. Operators of investor directed portfolio services (IDPS)[14] and investor directed portfolio-like services are required by ASIC Class Order 02/294[15] and Class Order 02/296[16] to obtain an auditor's report providing:

    (a) an opinion on the internal controls and other relevant accounting procedures as they relate to the specific annual investor statements; and

    (b) a review conclusion on the annual investor statements, quarterly reports in certain circumstances and information accessible to clients electronically.

    These class orders provide requirements for the form and content of the report in these circumstances. Reports provided under these class orders may provide sufficient appropriate audit evidence for a user auditor. If additional evidence is required by the user auditor, a service auditor's report on controls or on financial information may be requested. IDPS or IDPS-like services generally include custody and investment administration, consequently, if a type 1 or 2 report is provided, the user auditor can reasonably expect the operator (service organisation) and service auditor to report on the control objectives for the relevant services provided in this Guidance Statement.

17. Types of service organisations which provide some or all of the investment management services addressed in this Guidance Statement include:

- Custodians.
- Third Party Administrators.
- Investment Managers.
- Registrars.
- Trust Departments of Financial Institutions.
- Prime Brokers.

18. The responsible parties which typically engage the services of these service organisations on behalf of user entities, include but are not limited to:

- Trustees of Superannuation Funds.
- Responsible Entities for Registered Managed Investment Schemes.
- Trustees of Unregistered Unit Trusts.
- Boards of Insurance Companies.

19. The responsibilities of the responsible party of a user entity are set out in the relevant laws and regulations governing their role and the particular services they oversee.

---

[14] "IDPS" means an investor directed portfolio service, consisting of a number of functions including a custody, settlement and reporting system and service. The clients of the service have the sole discretion to decide what assets will be acquired or disposed of. The service is provided in such a way that clients are led to expect, and are likely to receive, benefits in the form of access to investments that the client could not otherwise access directly or cost reductions by using assets contributed by the client or derived directly or indirectly from assets contributed by the client with assets contributed by other clients or derived directly or indirectly from assets contributed by other clients.

[15] See ASIC Class Order 02/294 *Investor Directed Portfolio Services.*

[16] See ASIC Class Order 02/296 *Investor Directed Portfolio-like Services Provided Through a Registered Managed Investment Scheme.*

A: GUIDANCE FOR THE USER AUDITOR

20. The use of a service organisation for the provision of investment management services by a user entity does not alter the overall objective of the audit of the user entity's financial report, therefore it remains the responsibility of the user auditor to obtain sufficient appropriate audit evidence to support the auditor's opinion. The requirements of the Auditing Standards relating to obtaining sufficient appropriate evidence on which to form an opinion are the same as would apply if the records and supporting documentation were maintained by the user entity.

Risk assessment procedures

21. In addition to the risk assessment procedures performed in accordance with ASA 315 (Revised 2019), ASA 402 requires the user auditor to obtain an understanding of the nature and significance of the services that the service organisation provides to the user entity and the effect of those services on the user entity's system of internal control.

22. When the user auditor plans to rely on controls at the service organisation to reduce testing from substantive procedures, ASA 402 requires the user auditor to obtain evidence about the operating effectiveness of those controls.

23. The user auditor may not be able to obtain the above-mentioned understanding or evidence at the user entity. It may also not be practicable for the user auditor to contact or visit the service organisation. The user auditor is therefore likely to request management to obtain a type 1 or 2 report to provide the necessary understanding[17] and/or evidence.[18]

Subservice organisations

24. Service organisations often outsource activities to other specialist organisations. The outsourced activities may form an integral part of the service organisation's responsibilities towards user entities. If not, the specialist organisation is regarded as a supplier. A specialist organisation is regarded as a subservice organisation if the outsourced activities and related controls affect the achievement of the service organisation's relevant control objectives. Relevant control objectives relate to services that are included in the scope of the engagement.

25. If the service organisation uses a subservice organisation, the user auditor also obtains an understanding of the nature and significance of the services provided by the subservice organisation. As described in paragraph 23 of this Guidance Statement, the user auditor will likely use a type 1 or 2 report[19] to obtain the necessary understanding, and has regard for the service auditor's risk assessment procedures described in paragraphs 83 and 86 of this Guidance Statement.

26. There are two methods that the service organisation can apply to deal with subservice organisations in the type 1 or 2 reports, namely the carve-out method and the inclusive method. Regardless of the method applied, the service organisation retains responsibility for the control activities that have been outsourced to the subservice organisation, and managing the risks associated with those control activities. The service organisation also monitors the effective operation of controls over activities carried out on its behalf.

27. Therefore, the service organisation's description under both methods includes the nature of the relevant services performed by the subservice organisation, which support the achievement of the service organisation's control objectives. The type 2 report also describes the service

[17] See ASA 402, paragraph 12
[18] See ASA 402, paragraph 16.
[19] See ASA 402, paragraphs 18 and A40 (referring to paragraphs 9-14).

organisation's monitoring control activities at the governance (strategic and contractual relationship) level and operational level.

28. If the inclusive method is applicable, the user auditor normally obtains evidence of the operating effectiveness of the subservice organisation's controls by using a type 2 report of the service organisation. With this method, the scope of the service auditor's assurance also covers the subservice organisation's relevant control activities.

29. If the carve-out method is applicable[20], the user auditor normally obtains evidence of the operating effectiveness of the subservice organisation's controls by either:

- Using a type 2 report of the subservice organisation's relevant control activities, if available; or
- Using a type 2 report of the service organisation's monitoring controls over the subservice organisation's relevant control objectives and activities. Relevant monitoring controls may include, for example:
  - (at the governance level) review of contractual terms, review of established service standards (or service level agreements), or periodic service level meetings; and
  - (at the operational level) review of daily reconciliation exception reports, review of monthly Net Asset Value reports or review of daily back-up completion reports.

30. In the unusual circumstances when the above information is not available or only a type 1 report is available, the user auditor may, through the user entity, request the service organisation:

- To apply the inclusive method for the subservice organisation; or
- To provide access to the service organisation so that the user auditor can perform the necessary procedures at the service organisation, or the service auditor/another auditor can perform the procedures described in paragraph 13 of this Guidance Statement.

Using a Type 1 or Type 2 Report on Controls

~~21.~~31. ~~ASA 402 provides requirements for the user auditor in obtaining an understanding of the user entity and its environment when the user entity uses the services of a service organisation and states that a type 1 or 2 report may be used to obtain that understanding, if the user auditor is unable to obtain a sufficient understanding from the user entity.~~ The user auditor is required to determine whether the type 1 or 2 report provides sufficient appropriate audit evidence to support the user auditor's understanding of the design and implementation of controls at the service organisation.[21]

~~22. A type 1 report cannot be relied upon to reduce the level of substantive procedures conducted by the user auditor, as it does not provide any evidence of the operating effectiveness of the controls reported upon. Consequently, the usefulness of a type 1 report to a user auditor is limited to planning the audit, assessing the risk of material misstatement and designing further audit procedures.~~

32. ~~When the user auditor's risk assessment includes an expectation that controls at the service organisation are operating effectively, ASA 402 requires~~The user auditor is required to determine whether the type 2 report provides sufficient appropriate audit evidence that the

[20] See ASA 402, paragraphs 18 and A40 (referring to paragraphs 15-16)
[21] See ASA 402, paragraphs ~~9~~-14.

controls relevant to the user auditor are mitigating the user auditor's assessed risks of material misstatement at the assertion level.[22]

Time period covered by the type 2 report

33. As part of determining whether the type 2 report provides sufficient appropriate audit evidence, the user auditor ~~to obtain evidence~~evaluates the time period covered by the tests of controls[23]. When the type 2 report does not cover the period of the user entity's financial statements that are being audited, the user auditor determines whether there is a possibility that the controls could have changed in the remaining period.

34. In doing so, the user auditor considers whether information that came to their attention (while performing other procedures), could indicate that changes occurred in the service organisation's controls. Errors identified during substantive testing could for example be an indication of a change in the underlying controls.

35. The user auditor also enquires of the user entity's management whether they have identified any changes in the service organisation's controls after the period covered by the type 2 report or identified any errors in the service organisation's processing. Examples of where these changes might be identified, include the following:

- Changes communicated to user entity management from the service organisation.
- Changes in personnel at the service organisation with whom user entity management interacts.
- Changes in reports or other data received from the service organisation.
- Changes in contracts or service level agreements with the service organisation.

36. The user auditor evaluates the effects of any changes in the service organisation's controls on the effectiveness of the user entity's internal control over financial reporting, as applicable, and considers the factors described below to determine whether additional evidence is needed about the operating effectiveness of ~~those~~ controls~~,~~ over the remaining period[24]:

- The assertions to which ~~may be obtained from a type 2 report.[25] Type 2 reports are prepared for the purposes of multiple user entities, not specifically~~the tests of controls relate.
- The significance of the assessed risks of material misstatement related to those assertions.
- The specific controls that were tested (i.e. their nature, for ~~the purposes of any individual user auditor, so the user auditor is required to determine the sufficiency~~example automated or manual controls, and ~~appropriateness of the~~ their frequency, for example monthly, weekly, daily or multiple times a day).
- The degree to which audit evidence about the operating effectiveness of those controls was obtained.
- The length of the remaining period taking into account the date of the assurance report which will be later than the period end of the controls report (the longer that period, the more persuasive the evidence would need to be).

[22] See ASA 402, paragraph 17.
[23] See ASA 402, paragraphs 17(c) and A32.
[24] See ASA 402 paragraph A33
[25] ~~See ASA 402, paragraph 16.~~

- The extent to which the substantive procedures are intended to be reduced by the controls.
- The effectiveness of the control environment and the user entity's process to monitor the system of internal control.

~~23.~~37. Additional audit evidence typically includes obtaining a bridging letter from the service organisation attesting that the internal controls are still operating effectively. The information provided ~~by that report in accordance with ASA 402.[26]~~in a bridging letter is equivalent to making high-level enquiries of the service organisation's management, which provides the following information:

- A summary of any significant changes to the system description;
- Details of any significant changes to the risks, control objectives or control activities;
- Details of any major and relevant other exceptions, and their impact on the control objectives;
- [other]; and
- A statement by senior management that they have assessed the effectiveness of the control activities and provide the results thereof.

38. When the remaining period is up to 3 months, and the bridging letter does not identify significant changes, the user auditor evaluates the combination of evidence gathered (see paragraphs 34 to 36) in concluding whether sufficient appropriate audit evidence has been obtained. Depending on the circumstances, it may not be necessary to obtain any further audit evidence.

39. When the remaining period is more than 3 months, up to and including 6 months, and the bridging letter does not identify significant changes, it is likely that the user auditor will obtain additional audit evidence by, for example, testing the user entity's process to monitor the service organisation's system of internal control[27], or requesting that tests of controls be performed over the remaining period.

40. When the remaining period is more than 6 months, up to and including 9 months, and the bridging letter does not identify significant changes, it is likely that the user auditor will obtain additional audit evidence by, for example, requesting that tests of controls be performed over the remaining period.

41. When there are significant changes in any of the remaining periods described in paragraphs 38 to 40 of this guidance statement, the user auditor obtains audit evidence by requesting that tests of controls be performed on the amended controls over the remaining period.

42. If additional audit evidence from tests of controls, as described in paragraphs 38 to 41, cannot be obtained on the remaining period, it is likely that the user auditor will increase the extent of substantive testing. The user auditor's substantive testing approach may involve using the service auditor to perform these tests, using another auditor, or alternatively the user auditor undertaking the testing themselves at the service organisation.

Service auditor's description of tests performed and the results thereof

43. As part of determining whether the type 2 report provides sufficient appropriate audit evidence, the user auditor considers the service auditor's description of the tests carried out and the results thereof. Exceptions noted by the service auditor, or a modified opinion, do not

[26] ~~See ASA 402, paragraph 17.~~
[27] See ASA 402 paragraph A34

automatically mean that the service auditor's type 2 report will not be useful for the audit of the user entity's financial statements.

44. The user auditor considers the service auditor's description of the tests performed to understand the degree or significance of the exceptions noted and therefore how they affect the user auditor's reliance on the related controls, and whether further substantive procedures are needed. The matter giving rise to a modification could be used in assessing the risks of material misstatement, or the matter giving rise to a modification may not be pervasive and therefore the auditor my be able to rely on the operating effectiveness of unaffected controls. See paragraphs 92 to 98 of this Guidance Statement on the service auditor's description of the nature timing and extent of testing and paragraphs 111 to 112 on modified opinions.

45. If the impact of an exception or matters giving rise to a modified opinion are not apparent from the description, the user auditor may discuss such matters with the service auditor. See the section on "communicating with the service auditor" below, for guidance on communication practices.

Other considerations when using a type 1 or 2 report

~~24.~~46. Whilst the user auditor makes their own assessment of the relevance of the service auditor's tests of controls to the assertions in the user entity's financial report, when investment management services are provided, the user auditor can reasonably expect:

(a) each of the control objectives specified in this Guidance Statement[28] for the relevant investment management service/s to be addressed in the service organisation's description of its system and assertion;

(b) the related controls identified to be reported on by the service auditor; and

(c) adequate justification to be provided by the service organisation for any control objectives for which no related controls are identified.

~~25.~~47. When the service organisation reports against the minimum control objectives provided in this Guidance Statement it assists the user auditor to:

- Compare directly the controls in place at different service organisations providing the same investment management services.
- Collate the results of the controls tested where multiple service organisations are used to provide the same service.
- Identify omissions in the user entity's description of the system or gaps in the system of control over the relevant investment management services.

48. If the assurance report on controls ~~report is~~was prepared by a service auditor practicing in another jurisdiction, ~~the report may~~ or by a service provider that does not ~~address the minimum control objectives in~~ follow this Guidance Statement ~~for,~~ the ~~investment management services provided. Nevertheless,~~user auditor assesses the ~~report may still provide useful audit~~adequacy of the evidence that the assurance report provides. In assessing the sufficiency and appropriateness of the evidence that the ~~controls~~assurance report provides, in addition to consideration of the matters required in ASA 402,[29] the user auditor ~~may use~~:

~~[28] See Appendix 3 of this Guidance Statement.~~
~~[29] See ASA 402, paragraphs 13 and A21.~~

~~26.~~• compares the control objectives with the minimum control objectives in appendix 3 as a means of assessing the suitability of the control objectives used as criteria in the ~~controls~~assurance report provided~~.~~ ;

~~27. When assessing the sufficiency and appropriateness of the evidence provided by a type 2 report, ASA 402[30] requires the user auditor to evaluate the adequacy of the time period covered and the time elapsed since performance of the tests of controls. Whilst the longer the time elapsed since the performance of the tests, the less evidence the test may provide, it is necessary for the type 2 report to be available with sufficient time for the user auditor to use the evidence it contains prior to completion of the user entity's audit. It may be necessary for the user auditor to conduct further procedures in response to a modified opinion or deviations reported in the results of the tests performed. Consequently, a type 2 report issued for a time period ending prior to the user entity's period end may be more useful for the user auditor, even if the user auditor needs to obtain additional evidence about the operation of controls in the intervening period.~~

~~28. When the service organisation has used a subservice organisation in providing investment management services to the user entity and those services are excluded from the type 1 or 2 report, ASA 402 requires, if those services are relevant to the audit of the user entity, the user auditor to apply the requirements of ASA 402 with respect to the services of the subservice organisation.[31]~~

~~29. If a type 2 report provides the user auditor with sufficient appropriate audit evidence as to the reliability of controls over the investment management services provided by the service organisation to the user entity, it will enable the user auditor to reduce the extent of substantive testing that might otherwise have been necessary with respect to the balances or transactions subject to those services.~~

~~30. A type 2 report is not necessary, if the user auditor concludes that the risk of material misstatement will not be affected by the controls at the service organisation or that it is more appropriate to gather the evidence required by alternative procedures. These alternative procedures may include obtaining a service auditor's report on financial information.~~

- compares the sample sizes with the minimum sample sizes in paragraph 98 as a means of assessing the sufficiency of the evidence that the controls report provides
- confirms that the service auditor's procedures include procedures over the completeness and accuracy of the population from which items were selected for testing.

If the above-mentioned information is not apparent, the user auditor may discuss such matters with the service auditor. See the section on "communicating with the service auditor" below, for guidance on communication practices.

Using a Service Auditor's Report on Financial Information

~~31.~~49. In responding to the assessed risks of material misstatement, if sufficient appropriate audit evidence is not available from records held at the user entity, ASA 402 requires the user auditor to perform further audit procedures or use another auditor to perform those procedures at the service organisation.[32] Whilst the user auditor may be able to rely on a type 2 report as audit evidence of the operating effectiveness of controls to mitigate identified risks of material misstatement, a type 2 report alone cannot provide sufficient appropriate audit evidence with respect to material balances or classes of transactions of the user entity. ASA 330 requires the

~~30 See ASA 402, paragraphs 17(e) and A32.~~
~~31 See ASA 402, paragraph 18.~~
32 See ASA 402, paragraph 15.

user auditor to design and perform substantive procedures for each material class of transactions, account balance and disclosure.

~~32.~~50. Service organisations which provide investment management services may provide the user entity with a single financial statement regarding financial information of the user entity ("Statement") periodically in accordance with either a general purpose framework or special purpose framework.[33] Examples of a Statement include: a portfolio valuation report, a financial report or a component of a financial report. The requirements of the applicable financial reporting framework determine the form and content of the Statement. An unaudited Statement is an unverified source of evidence, which is a representation not independent from the user entity. If the financial report of the user entity has been prepared using unaudited financial information obtained from the service organisation, such information may not constitute sufficient appropriate audit evidence on which the user auditor could form an opinion.

~~33.~~51. The user auditor's procedures at the user entity with respect to the balances and transactions relating to the services provided by the service organisation are usually limited to:

- A review of the contract or service level agreement between the user entity and the service organisation so as to understand the rights and obligations of each party.
- A review and evaluation of the monitoring controls exercised by the user entity over the service organisation.
- A review of representations given by the service organisation concerning the user entity's balances or transactions.
- Verification of the receipt of income from the service organisation (if not re-invested).
- Analytical procedures on the financial information supplied by the service organisation.
- A review of the most recent audited financial report of the service organisation.

These procedures alone, or even in combination with a type 1 or 2 report on controls over the relevant investment management services, may not generate sufficient appropriate audit evidence.

~~34.~~52. The user auditor exercises professional judgement to determine whether the results of procedures conducted at the user entity as described in paragraph 33 of this Guidance Statement, considered alone or in combination with a type 1 or 2 report, provide sufficient appropriate evidence on which to form an audit opinion. If the user auditor requires further audit evidence, which the user auditor believes to be held at the service organisation, the user auditor either:

(a) obtains a service auditor's report on financial information; or

(b) gains access to the records and other information relating to the user entity in the possession of the service organisation.

~~35.~~53. Individual circumstances determine whether a service auditor's report on financial information is the more effective or efficient method of obtaining the audit evidence required by the user auditor. If the user auditor is able to specify whether the service auditor prepares a service auditor's report on specified assertions or on a Statement, the user auditor must exercise professional judgement to make this determination in the particular circumstances of the engagement.

---

[33] See ASA 700 *Forming an Opinion and Reporting on a Financial Report* for the definition of general purpose framework and ASA 800 for the definition of special purpose framework.

~~36.~~54. A service auditor's report on a Statement, as defined in paragraph 7(b)(ii) of this Guidance Statement, may be the most effective way to obtain sufficient appropriate audit evidence for all assertions regarding the user entity's balances or transactions contained in the Statement provided by the service organisation. This type of report may also be required by the user auditor if there is a potential or identified significant deficiency in the service organisation's controls, or there are material errors identified in the service organisation's reports.

~~37.~~55. The user auditor may be able to obtain sufficient appropriate audit evidence only for certain assertions relating to the user entity's balances or transactions contained in the Statement from information available from the user entity's records and from audit procedures performed thereon by the user auditor. For the remaining assertions, a service auditor's report on specified assertions, as defined in paragraph 7(b)(i) of this Guidance Statement, could provide the audit evidence required. This may include any of the assertions identified in ASA 315, which are:

(a) for classes of transactions and events for the period under audit: occurrence, completeness, accuracy, cut-off and classification;

(b) for account balances at the period end: existence, rights and obligations, completeness, valuation and allocation; and

(c) for presentation and disclosure: occurrence and rights and obligations, completeness, classification and understandability, and accuracy and valuation.

In many circumstances, the use of a service auditor's report on specified assertions in conjunction with a type 2 report provide the user auditor with sufficient appropriate audit evidence concerning the balances or transactions reported in the Statement.

~~38.~~56. In evaluating the audit evidence provided by a service auditor's report on financial information, the user auditor considers:

(a) the professional competence of the service auditor in the context of the assignment conducted;

(b) the sufficiency and appropriateness of the evidence, whether on its own or in conjunction with a type 1 or 2 report, provided by the service auditor's report on financial information regarding the assertions on which evidence is required;

(c) the impact of any modification to the service auditor's report on financial information on the sufficiency and appropriateness of the evidence provided by the report;

(d) the effect of any uncorrected misstatements reported by the service auditor in an attachment to their report, as described in paragraph 89 of this Guidance Statement; and

(e) the effect of any other matters, including significant deficiencies in internal control, significant findings from the audit, or fraud identified during the audit or reported by the service organisation to the user entity.

Materiality for Service Auditor's Reports on Financial Information

~~39.~~57. Paragraphs 84 to 85 of this Guidance Statement provide an appropriate basis for the service auditor to determine materiality for auditing specified assertions or a Statement. The user auditor, in determining performance materiality under Auditing Standard ASA 320[34] for the classes of transactions, account balances or disclosures affected by the services of the service organisation, may determine that the performance materiality level which would be

[34] See ASA 320 *Materiality in Planning and Performing an Audit.*

determined by the service auditor in applying this Guidance Statement is not suitable for the purposes of the audit of the user entity's financial report. In these circumstances, the user auditor may request that an alternative benchmark and/or percentage is used by the service auditor to determine performance materiality. The manner in which such a request is ordinarily communicated is discussed in paragraphs 42 and 44 of this Guidance Statement.

~~40.~~58. The user auditor makes the user auditor's own assessment of the materiality of any uncorrected misstatements communicated by the service auditor in the attachment, if any, to the service auditor's report on financial information, as described in paragraph 89 of this Guidance Statement.

Communicating with the Service Auditor

~~41.~~59. ASA 402 requires the user auditor to obtain an understanding of the nature of the relationship between the user entity and the service organisation, including the relevant contractual terms for the activities undertaken by the service organisation. The contract or service level agreement may specify whether:[35]

(a) a type 1 or 2 report on controls will be provided;

(b) the user auditor will have access to the accounting records of the user entity maintained by the service organisation and other information relevant to the audit; and

(c) the agreement allows for direct communication between the user auditor and service auditor.

~~42.~~60. If there is no direct relationship between the user auditor and the service auditor, communication is conducted through the user entity and service organisation. This is often the case when using a report on controls as there may be multiple user entities for which the report is provided. In considering the reliability of the information to be used as audit evidence,[36] if a report on controls is provided indirectly through the user entity and service organisation, the user auditor remains alert to fraud risk factors in the context of establishing the report's authenticity.

~~43.~~61. The user auditor may engage the service auditor directly, subject to relevant ethical and confidentiality considerations, to provide a report on financial information of the user entity maintained by the service organisation.[37]

~~44.~~62. The user auditor's engagement letter may provide for the user entity to obtain from the service organisation, where possible, a type 1 or 2 report, a service auditor's report on financial information or agreement to direct communication between the user auditor and the service auditor.

63. In order to consider the impact of any exceptions identified by the service auditor (and whether changes are required to the nature timing and extent of audit procedures), prior to the agreed date for issuing the audit report on the user entity's financial statements, the user auditor may set expected:

- timeframes in the engagement letter for receiving the type 1 or 2 report and/or a service auditor's report on financial information.; and
- circumstances under which the service auditor should communicate with the user auditor, for example, the service auditor may become aware of significant exceptions or may experience delays in completing the assurance engagement.

---

35 See ASA 402, paragraphs 9(d) and A8.
36 See ASA 500 *Audit Evidence*.
37 See ASA 402, paragraph A9.

64. The user entity should in turn agree these expectations with the service organisation.

Communicating With Those Charged With Governance of the User Entity

~~45.~~65. The user auditor is required under the Australian Auditing Standards to communicate any of the following matters identified to those charged with governance of the user entity on a timely basis:

(a) significant deficiencies in internal control identified during the audit;[38]

(b) significant findings from the audit;[39]

(c) uncorrected misstatements and the effect they, individually or in aggregate, may have on the opinion in the auditor's report;[40] and

(d) fraud, identified or suspected, involving management, employees who have significant roles in internal control or others where the fraud results in a material misstatement, as well as any other matters related to fraud that are relevant to their responsibilities.[41]

~~46.~~66. In determining whether there are any matters which the user auditor needs to report to those charged with governance of the user entity, as outlined in paragraph 45 of this Guidance Statement, with respect to the investment management services provided by the service organisation, the user auditor's procedures may include:

- A review of documentation and correspondence at the user entity regarding oversight and monitoring of the performance of the contract and/or service level agreement by the service organisation.
- Enquiries of those charged with governance, management or others within the user entity regarding whether any matters reported to those charged with governance of the service organisation, which may affect one or more user entities, have been reported by the service organisation to the user entity.
- Identification of any deviations reported by the service auditor in the type 1 or 2 report and evaluation of whether those deviations represent significant deficiencies in the user entity's internal control.
- Enquiries regarding the reasons for any modification to the service auditor's type 1 or 2 report or report on financial information.
- Identification of any uncorrected misstatements reported by the service auditor, in an attachment to the service auditor's report on financial information as described in paragraph 89 of this Guidance Statement.

~~47.~~67. If a type 1 or 2 controls report is available, ASA 402 requires the user auditor to enquire of management of the user entity whether the service organisation has reported to the user entity, or the user entity is aware of, any fraud, non-compliance with laws and regulations or uncorrected misstatements affecting the financial report of the user entity. These matters of governance interest may be communicated to the user entity by the service organisation, otherwise the service auditor is required to take appropriate action, which may include communication of such matters directly to the user entity. The service auditor may become aware of such matters as a result of the written representations which it is required to obtain from the service organisation. In addition, a service organisation may be required under the contract or service level agreement with the user entity to disclose matters, including those

[38] See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.
[39] See ASA 260 *Communication with Those Charged with Governance*.
[40] See ASA 450 *Evaluation of Misstatements Identified during the Audit*.
[41] See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.

listed in paragraph 45 of this Guidance Statement, that may affect the user entity. The user auditor evaluates the effect of any matters reported on the nature, timing and extent of further audit procedures.[42]

~~48.~~68. Where the user auditor does not have sufficient information regarding the matters of governance interest to fulfil the user auditor's responsibility, as outlined in paragraph 45 of this Guidance Statement, the user auditor may request further information to be provided. Whilst this information may be provided by the service auditor, the request is ordinarily made through the user entity.

Reporting by the User Auditor

~~49.~~69. If the user auditor concludes that the user entity's financial report contains material misstatements with respect to the services provided by the service organisation or that the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organisation relevant to the audit to form an opinion, Auditing Standard ASA 705 requires the user auditor to modify their opinion on the user entity's financial report.[43]

~~50.~~70. In accordance with ASA 402,[44] when using a type 1 or 2 report on controls, and Auditing Standards ASA 600 and ASA 620,[45] when using a service auditor's report on financial information, the user auditor does not refer to the work of a service auditor in the user auditor's report, unless required to do so by law or regulation or if it is relevant to understanding a modification to the user auditor's opinion.

B: GUIDANCE FOR THE SERVICE AUDITOR

Types of Engagements

~~51.~~71. Under a contract, offer document or service level agreement, the service organisation may agree to provide the user entity periodically with a type 1 or 2 report on controls, prepared in accordance with ASAE 3402, with respect to the services provided to the user entity and/or a Statement, with respect to the user entity's assets, liabilities or transactions recorded by the service organisation for the period, accompanied by a service auditor's report on the Statement or specified assertions, issued in accordance with ASA 805.

Engagements to Report on Controls

Nature of Engagement

~~52.~~72. Service auditor's engagements to report on controls are assurance engagements, which are defined under the *Framework for Assurance Engagements* as engagements in which the auditor expresses a conclusion or opinion about the outcome of the evaluation of a subject matter against criteria. The criteria for an engagement to report on a service organisation's controls, include control objectives.[46] The control objectives collectively reflect the level of control over user entities' balances or transactions that the user entity could reasonably expect from the service organisation for the purpose of the user entity's financial reporting. The service organisation's controls are designed to meet those control objectives. Appendix 3 of this Guidance Statement sets out the control objectives which the user entity can expect to be included in type 1 or 2 reports for each of the relevant investment management services. The service organisation may choose to include additional control objectives in the type 1 or 2 report. Additional control objectives may be included where those objectives are relevant to

---

42 See ASA 402, paragraphs 19 and A41, and ASAE 3402, paragraphs 38 and 56.
43 See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* and ASA 402, paragraph 20.
44 See ASA 402, paragraphs 21 and 22. .
45 See ASA 600 *Special Considerations—Audits of a Group Financial report (Including the Work of Component Auditors)* and ASA 620 *Using the Work of an Auditor's Expert*.
46 See ASAE 3402, paragraph 16.

user entities' financial reporting or to meet compliance reporting requirements or the terms of the service level agreement, offer document or contract.

Acceptance and Continuance of Engagements to Report on Controls

~~53.~~73. When agreeing to accept, or continue, an engagement to report on controls at a service organisation, ASAE 3402[47] requires the service auditor to assess whether the criteria will be suitable and available to user entities and their auditors. In doing so, the service auditor determines whether the criteria include the control objectives provided in this Guidance Statement for the relevant investment management services and, if any objectives are omitted or amended, whether the service organisation has adequately disclosed and justified that omission or amendment.

~~54.~~74. An example of an engagement letter for engagements to report on controls is provided in Appendix 1 Example 1.

Ethical Requirements

~~55.~~75. ASAE 3402 requires the service auditor to comply with relevant ethical requirements including those pertaining to independence, relating to assurance engagements, which does not necessitate the service auditor being independent from each user entity.[48]

~~56.~~76. However, threats to independence may arise with respect to user entities where there are only one or few user entities for the services subject to audit. Threats to independence may also arise with respect to subservice organisations where the controls of the subservice organisation are included in the service organisation's description of its system, under the inclusive method.[49]

~~57.~~77. Service auditors may also need to consider the manner in which their type 1 or 2 report is used and distributed by the service organisation. Examples of how this matter may be addressed in the engagement letter and in the service auditor's type 2 report are contained in Appendix 1 Example 1 and Appendix 4 respectively.

Responsibilities of the Service Organisation

~~58. It is for management, or, where appropriate, those charged with governance, of the service organisation to decide whether to prepare a report on controls and whether to have this report audited by a service auditor. In certain circumstances, the service organisation may, for example, consider it more appropriate to allow access for user entities and user auditors to the service organisation's records or provide a report on a specific aspect of its operations as it impacts an individual user entity. However, the following guidance is only applicable if the service organisation provides a controls assertion and a description of the system on which the service auditor is engaged to provide an assurance report.~~

~~59.~~ The service organisation typically prepares a description of its system to meet the needs of all user entities of a particular investment management service or services. A type 1 or 2 report on the controls at a service organisation covers investment management services provided to user entities which are likely to form part of those user entities' information systems relevant to financial reporting. ~~Circumstances in which the user auditor may require a type 1 report on design and implementation of controls only are set out in paragraph 22 of this Guidance Statement. The value of a type 1 report to the audit of the user entity is limited, so it is appropriate for the service auditor to prepare a type 1 report only in the first year of reporting on controls, to provide a starting point for future reports, or if none of the user entities require~~

[47] See ASAE 3402, paragraphs 13-14 for requirements in accepting and continuing an engagement to report on controls at a service organisation.
[48] See ASAE 3402, paragraph 11.
[49] See ASAE 3402, paragraph 9(g).

~~a report on the operating effectiveness of controls. Due to its limited value, an example of this report is not provided in this Guidance Statement.~~

~~60.~~78. ~~The frequency with which the service organisation provides a report on controls and the time period to be covered may be agreed in the contract and/or service level agreement between the user entity and the service organisation or may be set out in an offer document.~~

~~61.~~ An example of a service organisation's assertion and description of its system is shown in Appendix 2 of this Guidance Statement. The description of each investment management service provided in this Guidance Statement is indicative and not definitive.

79.

Assessing the Suitability of the Criteria

~~62.~~80. In assessing whether the service organisation has used suitable criteria in preparing the description of the system, evaluating whether controls are suitably designed and, in the case of type 2 reports, in evaluating whether controls are operating effectively, in accordance with ASAE 3402,[50] the service auditor determines whether the minimum control objectives provided in this Guidance Statement[51] for the relevant investment management service or services are included in the description of the system.

~~63.~~81. It is the responsibility of the service organisation to ensure that the control objectives are sufficient to meet the expectations of user entities and that any omissions or amendments to the minimum control objectives are appropriate. A service organisation may therefore consider the need to add further objectives and supporting controls where appropriate. The service auditor evaluates the suitability of any additional control objectives specified by the service organisation, by determining if they meet the characteristics of relevance, completeness, reliability, neutrality and understandability.[52]

~~64.~~82. If the service organisation omits or amends a control objective from GS 007 or adds further control objectives, the service auditor can expect those omissions, amendments or additional objectives to be clearly identified in the service organisation's description of the system. If a control objective is omitted, the service organisation may list that objective and note briefly the reasons for its omission. If a control objective is amended to clarify the intended meaning, such as use of terms appropriate to the service organisation's circumstances, or the control objective is expanded, the relevant GS 007 control objective may be treated as included. However, if the meaning of the control objective is changed or the scope of the objective reduced by the modifications, then it is appropriate for the service organisation to report the relevant GS 007 objective as omitted and report the modified objective as an additional objective in the description of the system.

Obtaining an ~~Understanding~~understanding of the ~~Service Organisation's System~~service organisation's system, and evaluating the design and implementation of controls

~~65.~~83. ASAE 3402[53] requires the service auditor to obtain an understanding of the service organisation's system, including controls that are included in the scope of the engagement. ~~In doing so, the service auditor identifies the boundaries of that system and ensures that the boundary of the investment management services included in the description of the system does not omit aspects of the services provided which are part of user entities' information system relevant to financial reporting.~~ Procedures to gain this understanding include: ~~The description of each investment management service provided in this Guidance Statement is~~

[50] See ASAE 3402, paragraphs 15-18 for further requirements in assessing the suitability of the criteria.
[51] See Appendix 3 of this Guidance Statement.
[52] See ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, on assessing the suitability of criteria.
[53] See ASAE 3402, paragraph 20.

~~indicative and not definitive. The service organisation may provide multiple investment management services, in which case the service auditor identifies how the services interface.~~

- Discussing aspects of the control framework and relevant control activities with management and other personnel of the service organisation;
- Determining who the user entities are and how the services provided by the service organisation are likely to affect the user entities, for example, the predominant type of user entities; and
- Reviewing standard terms of contracts with user entities to gain an understanding of the service organisation's contractual obligations.

84. The service auditor evaluates whether control activities are suitably designed and implemented, by:

- Considering the linkage between the control activities and the associated control objectives;
- Considering the ability of the control activities to prevent or detect errors related to the control objectives;
- Performing walk-throughs of selected transactions and the impact of Control Activities; and
- Performing further procedures, using a combination of the following:
  - Enquiry of appropriate service organisation personnel;
  - Inspection of documents and reports;
  - Observation of the application of specific control activities, to determine whether they are suitably designed to achieve the specified control objectives and if they are operated as prescribed, by appropriately qualified or experienced persons; and
  - Re-performance of a reconciliation or calculation.

Subservice organisations

85. Paragraph 24 of this Guidance Statement describes that service organisations often outsource activities to specialist organisations and when such organisations are regarded as subservice organisations. When subservice organisations are applicable, the service auditor obtains an understanding of the outsourced activities and related controls. Sources of information to inform the service auditor's understanding may include:

- a type 2 report of the subservice organisation's control activities;
- publicly available information from third parties such as complaints from other users, exceptions reported by regulators as applicable; and
- information produced by the subservice organisation, taking into account the reliability of such information (for example, exception reports from the subservice organisation's internal auditors).

86. The service auditor further obtains an understanding of the service organisation's monitoring controls over specialist organisations regarded as subservice organisations (i.e., ongoing monitoring activities, separate evaluations, or a combination thereof).

Obtaining evidence regarding the service organisation's description

87. To determine the fair presentation of the description, the service auditor compares their understanding of the service organisation's services provided to user entities with management or those charged with governance's assertions. Fairly described control activities are factual, objective, specific and verifiable, and do not omit or distort significant information that may affect the user entities' and auditors' assessments of control risk.

88. Fairly described control activities include a complete set of associated control objectives that are developed based on the objectives in Appendix 3 of this Guidance Statement, for the relevant investment management services provided by the service organisation. If any objectives have been omitted or amended, the service auditor evaluates the adequacy of the reasons for their omission or amendment (also see paragraphs 80 and 81 of this Guidance Statement).

89. If there are any inappropriate or unexplained omissions or material modifications with regard to the control objectives, the service auditor requests management, or those charged with governance, to amend the description. If it is not amended, the service auditor considers the implications on the service auditor's assurance report.

Subservice organisations[54]

90. The service auditor also determines the adequacy of the description of the services performed by subservice organisations. I.e., whether the description identifies controls at the service organisation and the subservice organisation individually (for the inclusive method); and/or the functions that are performed by the subservice organisation (for the carve-out method). When the carve-out method has been applied, the service auditor understands the reasons for applying the method and the adequacy of the reasons.

Conducting the Assurance Engagement to Report on Controls

~~66.~~91. The service auditor complies with the requirements of ASAE 3402 when conducting an assurance engagement to report on controls at the service organisation when:[55]

(a) obtaining evidence regarding the ~~description, design and~~ operating effectiveness of controls;

(b) considering the work of an internal audit function;

(c) obtaining written representations from the service organisation;

(d) considering other information;

(e) enquiring and, if necessary, disclosing subsequent events; and

(f) preparing and assembling documentation.

~~67. In obtaining evidence regarding the fair presentation of the description, the service auditor evaluates whether the control objectives are reasonable in the circumstances. In doing so, the service auditor determines whether the control objectives from Appendix 3 of this Guidance Statement for the relevant investment management service/s have been included or, for any objectives which have been omitted or amended, the adequacy of the reasons for their omission or amendment. If there are any unjustified omissions or misstatements with regard to the control objectives, the service auditor asks management, or those charged with governance, to amend the description. If it is not amended, the service auditor considers the~~

54 If subservice organisations are applicable, the service auditor of a service organisation that uses the services of the subservice organisation is also a user auditor.

55 See ASAE 3402, paragraphs ~~21~~24-52.

~~reasons, if known, for the omission or misstatement and the effect on the service auditor's type 1 or 2 report.~~

Obtaining evidence of the operating effectiveness of controls

92. The service auditor performs tests of controls to obtain evidence about the operating effectiveness of relevant control activities during a specified reporting period. Operating effectiveness is concerned with how a control activity is applied, the consistency with which it is applied, and by whom it is applied. The service auditor determines the nature, timing and extent of the tests to be performed to form their opinion on the operating effectiveness of the control activities.

Nature

93. Tests of controls include enquiry of the appropriate personnel and a combination of observation of the application of the control activities, inspection of relevant documentation and/or re-performance of the control activity.

Timing

94. These tests provide evidence that enables the service auditor to report on the entire period covered by the type 2 report. The Service Auditor must use evidence relating to the reporting period only[56]. Each control activity is assessed for operating effectiveness for every reporting period.

95. Certain control activities may not have evidence of their operation; the service auditor tests the operating effectiveness of such control activities at various times throughout the reporting period.

Extent

96. In describing the extent of tests, the service auditor indicates whether the items tested represent a sample or all the items in the population.

97. When testing a sample, the service auditor applies their own sampling methodology established in accordance with prevailing audit and assurance standards. In determining the number of items to be tested for each control activity, the service auditor considers a combination of the following attributes:

- Frequency of operation (e.g., daily, weekly);
- Nature of operation (e.g., manual, automated);
- Complexity of Control Activity (e.g., number of people involved, number of steps to be performed);
- Level of judgement within operation (e.g., approval of estimates without tolerance settings);
- Likelihood of error (e.g., previous records of errors); and
- Degree of centralisation of operation (e.g., harmonised procedure manuals, centralised training, centralised governance).

98. The table below is an example to assist service organisations, user entities and user auditors to understand the minimum number of items the service auditor may test for manual controls, based on a 12-month reporting period. The minimum sample sizes increase with an increase in

[56] See ASAE 3402 paragraph 24

risks of material misstatements which will vary based on each audit firm's methodology. Sample sizes may also vary when the reporting period is longer or shorter than 12 months.

Frequency of manual control	Assumed population of control occurrences	Illustrative sample size
Annual	1	1
Quarterly	4	2
Monthly	12	2
Weekly	52	5
Daily	250	20
Multiple times per day	Over 250	25

99. The service auditor describes the nature, timing and extent of the tests performed (including relevance and reliability tests described in paragraphs 102 to 105) in an appendix to the Service Auditor's Report. See appendix 5 for further details on the service auditor's description.

100. Where exceptions are reported, the service auditor may provide information about the sample or population size and the number of exceptions as an indication of their significance. If an exception is identified for a control activity that supports more than one control objective, the exception is reported against each control objective.

101. Where the service auditor is unable to test a described control activity because, for example, it was not required to operate during the year, they state the fact that no tests have been carried out and the reason in their description of tests.

Relevance and reliability of information to be used as audit evidence

102. Where control activities to be tested depend upon the completeness and accuracy of information produced by the service organisation, the service auditor determines whether it is necessary to obtain evidence supporting the operating effectiveness of controls over the production of that information.

103. This may arise where a manual control activity relies upon the completeness and accuracy of information included in a system-generated report. For example, 'management reviews a system report to identify any client agreement breaches'; in this example the operating effectiveness of the control activity is dependent on the operating effectiveness of the automated controls relating to completeness and accuracy of the information within that report.

104. An automated control can be expected to function consistently unless the IT application (including the tables, files, or other permanent data used by the IT application) is changed. Once the service auditor determined that an automated control is functioning as intended (which could be done at the time the control is initially implemented or at some other date), they perform tests to determine that the control continues to function effectively. Such tests may include testing the general IT controls related to the IT application (including change controls).

105. When using information produced by the service organisation, the service auditor evaluates whether the information is sufficiently reliable for their purposes, including, as necessary:

- Obtaining evidence about the completeness and accuracy of the information;
- Testing the controls in place that support the completeness and accuracy of the information; and/or
- Evaluating whether the information is sufficiently precise and detailed for the service auditor's purposes.

Subservice organisations when carve-out method is applicable

106. The service organisation's system description includes monitoring controls over the operating effectiveness of controls at the subservice organisation. The service auditor undertakes a review of one or more of the following monitoring controls for adequacy as part of the type 2 assurance engagement:

- reviewing contractual terms, established service standards (or service level agreements), or holding periodic service level meetings with the subservice organisation;
- reviewing and reconciling output reports (e.g., daily reconciliation exception reports, monthly Net Asset Valuation reports and daily back-up completion reports);
- making regular site visits to the subservice organisation;
- testing control activities at the subservice organisation by the service organisation's internal audit function;
- reviewing reports on the subservice organisation's systems, if available, prepared in accordance with recognised standards (such as those produced by the AUASB, NZAuASB, IAASB); and
- monitoring external communications, such as user entity complaints relevant to services provide by the subservice organisation.

107. The relative importance of each monitoring control to a particular engagement and whether one or more controls should be tested for adequacy is a matter of professional judgement based on the service auditor's understanding obtained in paragraphs 83 to 90 of this Guidance Statement.

Time period covered by the type 2 report

108. The user auditor guidance on the 'time period covered by a type 2 report' may equally apply to the service auditor if the service auditor relies on such a report to obtain evidence of the operating effectiveness of controls at a subservice organisation. See paragraphs 33 to 42 of this Guidance Statement.

The Service Auditor's Assurance Report[57]

~~68.~~109. The service auditor's opinion is expressed in a written assurance report on controls attached to the service organisation's description of its system and assertion.

~~69.~~110. The service auditor's type 1 or 2 report, includes the basic elements required by ASAE 3402 with specific consideration of matters relevant to investment management services, including:

(a) A statement that the criteria include the minimum control objectives provided in this Guidance Statement for the relevant investment management services; and

(b) A statement that the service organisation is responsible for:

(i) Providing the investment management services covered by the service organisation's description of its system; and

(ii) Stating the control objectives, including those for the relevant investment management services from this Guidance Statement, and if any minimum

[57] See ASAE 3402, paragraphs 53-56.

control objectives are omitted or amended, providing an explanation of that omission or amendment.

Reference to an~~An example of a service auditor's type 2 assurance report is shown at Appendix 4.~~

~~*Describing Tests of Operating Effectiveness*~~

(c) ~~The service auditor's type 2 report includes a separate~~ attachment that describes the nature, timing and extent of the service auditor's tests of controls and the results thereof.

~~70.~~ An example of a service auditor's type 2 assurance report is shown at Appendix 4. An explanation and example of the service auditor's description of the nature, timing and extent of tests applied to controls is provided in Appendix 5~~ of this Guidance Statement~~.

~~Modified Opinions~~

Reporting on Description misstatements, design deficiencies or when control activities are not operating effectively

111. When preparing the assurance report, the service auditor is required to modify their opinion in the circumstances set out in ASAE 3402. ~~If the service auditor concludes that the control objectives for the investment management services are incomplete and the service organisation refuses to amend their report to address those control objectives, the service auditor may modify their opinion if it has a material impact on the fair presentation of the description.~~

112. If exceptions and limitations have been identified the service auditor determines the appropriate form of opinion as illustrated below. See appendix […] for information on each opinion.

Unqualified			Qualified	Adverse
No exceptions	Not material exceptions	Non-applicable control objective	Material exceptions	Material and Pervasive exceptions

~~71.~~

Other Communication Responsibilities

~~72.~~113. ASAE 3402 requires the service auditor to determine whether non-compliance with laws and regulations, fraud, or uncorrected errors which are not clearly trivial, have been communicated to affected user entities and, if not, to take appropriate action.

Engagements to Report on Financial Information

Nature of Engagements

~~73.~~114. If the service auditor is engaged to provide a report on financial information, the service auditor issues a separate auditor's report in respect of each user entity concerning only that user entity's balances and/or transactions.

~~74.~~115. In performing an engagement to report on specified assertions or on a Statement the service auditor applies the Australian Auditing Standards and reports on the engagement under ASA 805.

~~75.~~116. If the service auditor has provided assurance on controls in a type 2 report, it provides assurance as to the reliability of controls over the investment management services which relate to the user entity's balances and/or transactions. Accordingly, the service auditor may be able to reduce the extent of substantive testing that might otherwise be necessary in preparing a service auditor's report on financial information.

Acceptance and Continuance of Audit Engagements to Report on Financial Information

~~76.~~117. Before accepting the engagement, the service auditor is required under Auditing Standard ASA 210[58] to determine the acceptability of the financial reporting framework, which in the case of a single financial statement or element, includes determining whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed and the effect of material transactions and events on the information conveyed.[59]

~~77.~~118. The service auditor also complies with ASA 210 in agreeing the terms of engagement. In addition to the matters specified in ASA 210, the engagement letter or other written agreement between the service auditor and the engaging party ~~-~~may include:

- The service auditor's responsibility to conduct the engagement with reference to this Guidance Statement.
- The service auditor's responsibility to report, in an attachment to the service auditor's report, uncorrected misstatements which have been aggregated during the audit, other than amounts which are clearly trivial.
- Reference to the performance materiality level provided by the user auditor, if applicable.

Example engagement letters for engagements to report on specified assertions and on a Statement are included in Appendix 1, Examples 2 and 3 respectively.

~~78.~~119. The service auditor may be engaged by the service organisation or directly by the user entity or user auditor. If the user entity or user auditor engages the service auditor directly, access to the service organisation's records will need to be agreed with the service organisation. Access to the service organisation's records may be allowed for in the service level agreement with the user entity or by separate agreement. The agreement may provide for the service organisation to receive a copy of the auditor's report and notification of any matters of governance interest communicated as described in paragraph 88 of this Guidance Statement.

Ethical Requirements

~~79.~~120. In accordance with Auditing Standard ASA 200,[60] the service auditor is required to comply with relevant ethical requirements, including those pertaining to independence, when performing an audit of a Statement or specified assertions.

~~80.~~121. Relevant ethical requirements, defined in Auditing Standard ASA 102, include the fundamental principles of professional ethics, relating to the engagement to be undertaken, which are:

(a) integrity;

(b) objectivity;

(c) professional competence and due care;

(d) confidentiality; and

(e) professional behaviour.

---

58 See ASA 210 *Agreeing the Terms of Audit Engagements*.
59 See ASA 805.
60 See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards.*

~~81.~~122. Where the service auditor is undertaking an audit of a Statement or specified assertion particular consideration needs to be given to any threats to independence with respect to the user entity since the service auditor is reporting on financial information of the user entity. Threats to independence with respect to the user entity may be present, such as self-interest or familiarity threats, notwithstanding that the user entity may not be an assurance client of the service auditor.

~~82.~~123. In evaluating threats to independence and considering applicable safeguards, the service auditor considers the nature of the engagement. It may be sufficient, for example in the case of a restricted use report, to apply independence requirements in evaluating the independence of the engagement team members and their immediate and close family with respect to the user entity, along with limited consideration of the firm's interests and relationships with the user entity.

~~83.~~124. Examples of safeguards that may be considered appropriate by service auditors to manage identified threats to independence include:

- Prohibiting the holding of direct, or material indirect, financial interests in the user entity or its affiliates by members of the service auditor's engagement team and their immediate and close family.
- Removal from the service auditor's engagement team of any personnel with a close relationship with directors, officers or employees of the user entity or its affiliates.

Materiality to be Applied by the Service Auditor

~~84.~~125. When conducting an audit of specified assertions or a Statement, the service auditor considers materiality under ASA 320 in determining the nature, timing and extent of audit procedures and evaluating the effect of misstatements. The relevant benchmark, for investment management services, on which the service auditor bases materiality, under ASA 320, in most cases is either:

(a) the assets of the user entity for which specific assertions are being audited;

(b) total assets of the user entity reported in the Statement; or

(c) net assets, where assets and liabilities are reported, of the user entity reported in the Statement.

~~85.~~126. The service auditor often applies a percentage to the benchmark as a starting point in determining materiality under ASA 320. The user auditor may request that a particular benchmark or percentage be used by the service auditor as a basis for determining performance materiality. In the absence of a basis for materiality specified by the user auditor, the service auditor may apply a percentage of 0.5% to any of the benchmarks listed in paragraph 84 of this Guidance Statement as a reasonable basis for determining performance materiality for auditing specified assertions or a Statement, where investment management services are provided. Where an alternative benchmark is used, this percentage may not be appropriate for determining materiality.

The Service Auditor's Report on Financial Information

~~86.~~127. Service auditor's reports on specified assertions or on a Statement, need to comply with the requirements in ASA 805 and as such include the basic elements of an auditor's report as set out in that standard. In addition to these elements, the service auditor includes in their report:

(a) identification of the specific assertions audited (if the report is limited to specific assertions);

(b) identification of the investment management services provided by the service organisation to the user entity;

(c) a description of the responsible party's (management, or those charged with governance, of the service organisation) responsibilities for the investment management services provided to the user entity; and

(d) reference to the use of the report by the user entity and the user auditor.

Examples of a service auditor's report on specified assertions is provided in Appendix 6 Example 1 and a service auditor's report on a Statement is provided in Appendix 6 Example 2 of this Guidance Statement.

Information Excluded from the Service Auditor's Report

~~87.~~128. When performing an audit engagement at a service organisation, the service auditor may restrict the audit procedures to information that is held by the service organisation on behalf of the user entity. The Statement, however, may include information which is provided by the user entity or by another party to the service organisation for inclusion in the Statement. Documentation or other audit evidence may not be available at the service organisation to substantiate that information. Where certain information within the Statement has not been audited, the service auditor identifies that information and specifically excludes it from the scope of the audit opinion.

Reporting of Matters of Governance Interest Arising in an Audit Engagement on Financial Information

~~88.~~129. In the course of performing procedures for an audit engagement at a service organisation on financial information of the user entity, the service auditor is required to communicate any of the following matters identified to those charged with governance of the engaging party on a timely basis:

(a) significant deficiencies in internal control;[61]

(b) significant findings from the audit;[62]

(c) uncorrected misstatements and the effect they, individually or in aggregate, may have on the opinion in the ~~auditor's~~audit report of the service auditor;[63] and

(d) fraud, identified or suspected involving management, employees who have significant roles in internal control or others where the fraud results in a material misstatement, as well as any other matters related to fraud that are relevant to their responsibilities.[64]

~~89.~~130. In addition, the service auditor states in their report whether they have identified any uncorrected misstatements in the course of the audit, other than amounts which are clearly trivial, and, if so, details the uncorrected misstatements in an attachment to their report. An outline for an attachment on uncorrected misstatements is shown in Appendix 6, Examples 1 and 2.

~~90.~~131. When the service auditor is engaged by the service organisation and considers that any of the matters reported to those charged with governance of the service organisation may affect one or more user entities, the service auditor determines from the appropriate level of management whether this information has been communicated to the affected user entities. If the matter is not communicated satisfactorily, the service auditor may consider whether it affects the

---

61 See ASA 265.
62 See ASA 260.
63 See ASA 450.
64 See ASA 240.

service auditor's ability to conduct the engagement or necessitates a modification to the service auditor's report.

Appendix 1

(Ref: Para. 54 and 77)

EXAMPLE ENGAGEMENT LETTERS

The following example engagement letters are not authoritative and are intended only to be a guide that may be used in conjunction with the considerations outlined in GS 007. The engagement letters will need to be varied according to individual requirements and circumstances. They are drafted to refer to an engagement for a single reporting period and would require adaptation if intended or expected to apply to recurring engagements.[65] It may be appropriate to seek legal advice that any proposed engagement letter is suitable.

Example 1: A service auditor's engagement letter to a service organisation for provision of assurance over a type 2 report on the description, design and operating effectiveness of a service organisation's controls.

Example 2: A service auditor's engagement letter to the engaging party for audit of specified assertions of the user entity's assets, liabilities or transactions in a financial statement prepared by a service organisation.

Example 3: A service auditor's engagement letter to the engaging party for an audit of a financial statement of a user entity's assets, liabilities or transactions prepared by a service organisation.

Example 1: Engagement Letter for a Type 2 Report on a Service Organisation's Controls

To [the appropriate representative of management or those charged with governance] of XYZ Service Organisation (XYZ):

[*The objective and scope of the engagement*]

You have requested that we report on the description of XYZ's [investment management service/s provided: custody, asset management, property management, superannuation member administration, investment administration or registry] system and management's assertion with respect to that description, which you will provide and which will accompany our report. The description of XYZ's [investment management service] system comprises control objectives and related controls designed to achieve those objectives for the [period] ended [date]. The control objectives included are the objectives for [investment management service] specified in Guidance Statement GS 007[66] and any additional objectives which are likely to be relevant to internal control as it relates to financial reporting of clients who have used the [investment management service] system.

We are pleased to confirm our acceptance and understanding of this assurance engagement by means of this letter. Our assurance engagement will be conducted with the objective of our expressing an opinion on the fair presentation of the [investment management service] system, suitability of the design of the controls to achieve the control objectives throughout the period and the operating effectiveness of the controls necessary to provide reasonable assurance that the control objectives were achieved throughout the period.

[The responsibilities of the assurance practitioner]

We will conduct our assurance engagement in accordance with Standard on Assurance Engagements ASAE 3402 *Assurance Reports on Controls at a Service Organisation* and with reference to Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*. ASAE 3402 requires that we comply with ethical requirements and plan and perform

[65] See ASA 210.
[66] See Appendix 3 of this Guidance Statement.

procedures to obtain reasonable assurance about whether, in all material respects, XYZ's description of the [investment management service] system is fairly presented, the controls are suitably designed, and operating effectively throughout the reporting period. An assurance engagement involves performing procedures to obtain evidence about the description, design and operating effectiveness of controls. The procedures selected depend on the assurance practitioner's judgement, including the assessment of the risks of significant deficiencies in the [investment management service] system.

Because of the inherent limitations of an assurance engagement, together with the inherent limitations of any internal control system there is an unavoidable risk that some significant deficiencies may not be detected, even though the engagement is properly planned and performed in accordance with Standards on Assurance Engagements.

The system, within which the controls that we will test operate, will not be examined except to the extent the system is likely to be relevant to clients, as it relates to financial reporting. Hence no opinion will be expressed as to the effectiveness of the internal control system as a whole.

The work undertaken by us to form an opinion, is permeated by judgement, in particular regarding the nature, timing and extent of assurance procedures for gathering evidence and the drawing of conclusions based on the evidence gathered. In addition to the inherent limitations in any assurance engagement, which include the use of testing, inherent limitations of any internal control structure, and the possibility of collusion, most evidence is persuasive rather than conclusive. As a result, an assurance engagement can only provide reasonable – not absolute – assurance that the description is fairly presented, controls are suitably designed and controls have operated effectively throughout the period.

[The responsibilities of management and identification of the applicable control framework]

Our assurance engagement will be conducted on the basis that [management or, where appropriate, those charged with governance] acknowledge and understand that they have responsibility:

(a) for the preparation of a written assertion that, in all material respects, and based on suitable criteria:

  (i) the description fairly presents XYZ's [investment management service] system designed and implemented throughout the period;

  (ii) the controls related to the control objectives stated in XYZ's description of its system were suitably designed throughout the specified period; and

  (iii) the controls related to the control objectives stated in XYZ's description of its system operated effectively throughout the specified period.

(b) for design of the system, comprising controls which will achieve control objectives which are likely to be relevant to clients', who have used the [investment management service] system, internal control as it relates to financial reporting;

(c) to provide us with:

  (i) Access to all information of which those charged with governance and management are aware that is relevant to the design, implementation and operation of the [investment management service] system;

  (ii) Additional information that we may request from those charged with governance and management for the purposes of this assurance engagement; and

  (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our assurance process, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the engagement.

XYZ's description of the system will include the minimum control objectives for [investment management service] set out in GS 007, but they may add to or amend these to the extent necessary such that the control objectives are likely to be relevant to internal control as it relates to financial reporting of clients, who have used the [investment management service] system. If [management/those charged with governance] consider any of the control objectives from GS 007 for [investment management service] are not applicable to XYZ or require amendment, then they will include an explanation of the omission of or amendment to that objective in XYZ's description of the system.

[Assurance Approach]

We will examine and evaluate the control objectives and controls for the [investment management service] system described above. The "Description of the [investment management service] System" will include details of controls with which clients should comply. While our evaluation will include assessment of the appropriateness of the complementary client controls, our testing will not encompass evaluation of the suitability of design or operating effectiveness of controls carried out by users of XYZ's [investment management service] system. The control objectives stated in XYZ's description of its system can be achieved only if complementary user entity controls are suitably designed or operating effectively, along with the controls at the service organisation.

Our procedures will extend to the control objectives and related controls at relevant subservice organisations only to the extent that those controls are included in XYZ's description of the [investment management service] system and are necessary to achieve the relevant control objectives.

Due to the complex nature of internal control, our assurance procedures will not encompass all individual controls at XYZ, but will be restricted to an examination of those controls reported which achieve the control objectives identified by XYZ's management in the "Description of the [investment management service] System" provided to us.

[Assurance Procedures]

Our assurance procedures are likely to include:

1. Performing a preliminary review of the control environment of XYZ relevant to the [investment management service] system.

2. Evaluating the reasonableness of the control objectives, including assessing how they address the minimum control objectives for [investment management service] provided in GS 007.

3. Evaluating the completeness, accuracy and presentation of the "Description of the [investment management service] System" against the controls implemented.

4. Evaluating the design of specific controls by:

    - Assessing the risks that threaten the achievement of the control objectives.

    - Evaluating whether the controls described are capable of addressing those risks and achieving the related objectives.

5. Performing tests of controls to ascertain whether the degree of compliance with controls is sufficient to provide reasonable assurance that the controls have achieved their objectives throughout the period.

In undertaking this engagement, we shall work closely with XYZ's internal audit function and place reliance on their work in accordance with Auditing Standard ASA 610 *Using the Work of Internal*

Auditors [this paragraph is applicable where the work of internal audit is an integral part of the assurance engagement].

[Assurance Report]

The format of the report will be in accordance with ASAE 3402 and will include an opinion on the "Description of the [investment management service] System" by XYZ management and an accompanying description of the tests of controls that we performed and the results of those tests. An example of the proposed report is contained in the appendix to this letter.

Our report will be issued [frequency] and will cover [period reported on] (paragraph is appropriate for recurring engagements).

The assurance report will be incorporated in a report issued by XYZ containing information prepared by XYZ management to provide clients and their auditors with an overall understanding of [subject matter]. We will review the contents of the report issued by XYZ to identify any material inconsistencies with the "Description of the [investment management service] System".

[Distribution of the Assurance Report]

Our report and the accompanying description of tests of controls are intended only for clients of XYZ that use the [investment management service] system and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by clients themselves, when assessing the risks of material misstatements of clients' financial reports.

Our assurance report will be prepared for this purpose only and we disclaim any assumption of responsibility for any reliance on our report to any person other than to XYZ's clients and their auditors or for any purpose other than that for which it was prepared.[67]

[Significant Deficiencies in Controls]

We will issue an assurance report without modification, to provide reasonable assurance on the [investment management service] system where our procedures do not disclose a significant deficiency in the controls necessary to achieve the control objectives contained in the "Description of the [investment management service] System" by XYZ management. For this purpose, a significant deficiency exists when prescribed control procedures, or the degree of compliance with them:

(a) does not provide XYZ management with reasonable assurance that the control objectives will be met or that fraud, error, or non-compliance with laws and regulations would be prevented or detected by employees in the normal course of their assigned functions; and

(b) knowledge of that deficiency would be material to users of the assurance report.

If our assurance engagement discloses that there are significant deficiencies in the system of controls in operation during the period covered by the report, such deficiencies will be disclosed in our report even if they were corrected prior to the end of the reporting period. However, our report will indicate that such deficiencies were corrected if that is the case. If any significant deficiencies disclosed in our report have been corrected subsequent to this period (or are in the process of being corrected), we will refer to this in our report.

Although the primary purpose of our assurance engagement will be to enable us to issue the above described report, we will also periodically provide you with letters containing recommendations for strengthening controls if such matters are observed during the process of the assurance engagement.

---

[67] Use of the report and liability limitation: insert additional wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

Although issues raised may not represent significant deficiencies in the system of controls, recommendations will address areas where we believe controls could be improved.

We look forward to full co-operation from your staff during our assurance engagement.

[Other relevant information]

[Insert additional information such as fee arrangements, billings and other specific terms, as appropriate.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our assurance engagement to report on the controls over XYZ's [investment management service] services to clients, including our respective responsibilities.

Yours faithfully

(signed)

……

Name and Title

Date

Acknowledged on behalf of XYZ

(signed)

…….

Name and Title

Date

Example 2: Engagement Letter for an Audit of Specified Assertions

To [the engaging party]:[68]

[The objective and scope of the audit]

You[69] have requested that we audit the [specified assertions][70] of the assets [and liabilities or transactions] in the [title of the financial statement] of [user entity/entities] ("the Statement"), which comprises the [statement of assets and liabilities] as at [date], and the [statement of transactions] for the [period] then ended, concerning the assets and liabilities of [user entity / entities][71] [nature of investment management service: managed by or in the custody] of the XYZ Service Organisation (XYZ) as at [date].

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the [specified assertions] of the assets [and liabilities or transactions] in the Statement.

[The responsibilities of the auditor]

We will conduct our audit in accordance with the Australian Auditing Standards, in particular ASA 805 *Special Considerations—Audit of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, and with reference to AUASB Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*. Australian Auditing Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Statement is free from material misstatement with respect to the assertions specified. This audit involves performing procedures to obtain audit evidence about the [specified assertions] of the assets [and liabilities or transactions] in the Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement with respect to the [specified assertions] of the assets [and liabilities or transactions] in the Statement, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the Statement with respect to the [specified assertions] of the assets [and liabilities or transactions].

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

In making our risk assessments, we consider internal control relevant to XYZ's [specified assertions] of the assets [and liabilities or transactions] in the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of XYZ's controls.[72] However, we will communicate to you in writing concerning any significant deficiencies in internal controls over financial reporting on behalf of [user entity / entities], that we have identified during the audit of the [specified assertions] of the assets [and liabilities or transactions] in the Statement.

---

68 The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see ASA 210.

69 Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "auditor" would be used or amended as appropriate in the circumstances.

70 Insert specified assertions to be audited:
- for transactions or events: occurrence, completeness, accuracy, cut-off and classification;
- for balances: existence, rights and obligations, completeness or valuation and allocation; or
- for presentation and disclosure: occurrence, rights and obligations, completeness, classification and understandability and accuracy and valuation.

71 Where the assets are held in the name of a nominee holding company insert "held in the name of [nominee holding company]".

72 In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the specified assertions of the assets [and liabilities or transactions] in the Statement, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to [name of service organisation]'s preparation and fair presentation of [specified assertions] of the assets [and liabilities or transactions] in the Statement in order to design audit procedures that are appropriate in the circumstances."

We will report any uncorrected misstatements which we have aggregated during the audit but that were determined by management to be immaterial, both individually and in aggregate, to [specified assertions] of the assets [and liabilities or transactions] in the Statement, other than amounts which are clearly trivial, in an attachment to our report.

[The responsibilities of management]

Our audit will be conducted on the basis that [[the engaging party] confirm that][73] management and, where appropriate, those charged with governance,[74] of XYZ acknowledge and understand that they have responsibility:

(a) for the [specified assertions] of the assets [and liabilities or transactions] in the Statement fairly in accordance with the basis of preparation;[75]

(b) for such internal control as XYZ [management] determines is necessary to enable [specified assertions] of the assets [and liabilities or transactions] in the Statement that is free from misstatement, whether due to fraud or error;

(c) to provide us with:

  (i) Access to all information of which those charged with governance and management of XYZ are aware that is relevant to the [specified assertions] of the assets [and liabilities or transactions] in the Statement such as records, documentation and other matters;

  (ii) Additional information that we may request from those charged with governance and management of XYZ for the purpose of the audit; and

  (iii) Unrestricted access to persons within XYZ from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [management and, where appropriate, those charged with governance of XYZ] written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from [XYZ and][76] your staff during our audit.

[Distribution of the Auditor's Report]

We understand that our report may be incorporated in a report prepared by XYZ for distribution to [the engaging party and] the [Trustee/those charged with governance] of [user entity] for the purpose of fulfilling the [those charged with governance] of XYZ's reporting obligations under the [title of contract or service level agreement]. Our report will be prepared for this purpose only and we disclaim any assumption of responsibility for any reliance on our report, or on the Statement to which it relates, to any person other than [the engaging party], [those charged with governance] of XYZ, [the Trustee/those charged with governance] of [user entity / entities] and their auditor, or for any other purpose other than that for which it was prepared.[77]

[Other relevant information]

---

73 Insert where the engaging party is not XYZ Service Organisation, so the engaging party needs to obtain XYZ's acknowledgement of their responsibilities.

74 Use terminology as appropriate in the circumstances, such as "the Directors".

75 Insert "applicable Australian Accounting Standards" where multiple Australian Accounting Standards were applied; insert reference to a specific Australian Accounting Standard where appropriate (for example: "the measurement standards of AAS 25 Financial Reporting by Superannuation Plans."); or "the accounting policies described in Note X to the Statement".

76 Insert where the engaging party is not XYZ Service Organisation.

77 Use of the report and liability limitation: insert additional wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

[Insert appropriate reference to the expected form and content of the auditor's report.]

The form and content of our report may need to be amended in the light of our audit findings.

[Independence]

We confirm that, to the best of our knowledge and belief, the engagement team are independent of [user entity / entities] in accordance with [specify relevant ethical requirements] in relation to the audit of the [specified assertions] of the assets [and liabilities or transactions] in the Statement. In conducting our audit of the [specified assertions] of the assets [and liabilities or transactions] in the Statement, should we become aware that we are not in compliance with the independence requirements of [specify relevant ethical requirements] we shall notify you on a timely basis.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of [specified assertions] of the assets [and liabilities or transactions] in the Statement including our respective responsibilities.

Yours faithfully

(signed)

.....

Partner

Firm

Acknowledged and agreed on behalf of [engaging party] by

(signed)

.....

Name and Title

Date

Example 3: Engagement Letter for an Audit of a Statement

To [the engaging party]:[78]

[The objective and scope of the audit]

You[79] have requested that we audit the [title of financial statement] of [user entity / entities][80] ("the Statement"), which comprises the [statement of assets and liabilities] as at [date], and the [statement of transactions] for the year then ended, concerning the assets [and liabilities or transactions] of [user entity / entities][81] [insert nature of investment management service: managed by or in the custody of] XYZ Service Organisation (XYZ) as at [date].

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the Statement.

[The responsibilities of the auditor]

We will conduct our audit in accordance with the Australian Auditing Standards, in particular ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, and with reference to AUASB Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*. Australian Auditing Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Statement is free from material misstatement. [If the user auditor has provided a materiality level to apply in the audit insert: The performance materiality level, which we will apply in determining the nature, timing and extent of audit procedures and in evaluating the effect of misstatements identified, has been provided by the auditor of [user entity / entities] and is [x] percent of [total assets/net assets]. This audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

Because of the other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

In making our risk assessments, we consider internal control relevant to XYZ's preparation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of XYZ's controls.[82] However, we will communicate to you in writing concerning any significant deficiencies in internal controls over financial reporting on behalf of [user entity / entities], that we have identified during the audit of the Statement.

We will report any uncorrected misstatements which we have aggregated during the audit but that were determined by management to be immaterial, both individually and in aggregate, to the Statement taken as a whole, other than amounts which are clearly trivial, in an attachment to our report.

---

78 The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see ASA 210.

79 Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "auditor" would be used or amended as appropriate in the circumstances.

80 If certain assertions are specifically excluded from the audit then insert: "except for [specify assertions excluded, e.g. presentation and disclosure] of the Statement".

81 Where the assets are held in the name of a nominee holding company insert "held in the name of [nominee holding company]".

82 In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the Statement, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to [name of service organisation]'s preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances."

[The responsibilities of management and identification of the applicable financial reporting framework]

Our audit will be conducted on the basis that [[the engaging party] confirm that][83] management and, where appropriate, those charged with governance[84] of XYZ acknowledge and understand that they have responsibility:

(a) For the preparation of the Statement that gives a true and fair view in accordance with [specify framework].[85]

(b) For such internal control as XYZ [management] determines is necessary to enable the preparation of a Statement that is free from misstatement, whether due to fraud or error.

(c) To provide us with:

  (i) Access to all information of which those charged with governance and management of XYZ are aware that is relevant to the preparation of the Statement such as records, documentation and other matters;

  (ii) Additional information that we may request from those charged with governance and management of XYZ for the purpose of the audit; and

  (iii) Unrestricted access to persons within XYZ from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [management and, where appropriate, from those charged with governance of XYZ], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from [XYZ and][86] your staff during our audit.

[Distribution of the Auditor's Report]

We understand that our report may be incorporated in a report prepared by XYZ for distribution to [the engaging party and] the [Trustee/those charged with governance] of [user entity] for the purpose of fulfilling the [those charged with governance] of XYZ's reporting obligations under the [title of contract or service level agreement]. Our report will be prepared for this purpose only and we disclaim any assumption of responsibility for any reliance on our report, or on the Statement to which it relates, to any person other than [the engaging party], [those charged with governance] of XYZ, [the Trustee/those charged with governance] of [user entity / entities] and their auditor, or for any other purpose other than that for which it was prepared.[87]

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

[Insert appropriate reference to the expected form and content of the auditor's report.]

---

83 Insert where the engaging party is not XYZ Service Organisation, so the engaging party needs to obtain XYZ's acknowledgement of their responsibilities.

84 Use terminology as appropriate in the circumstances, such as "the Directors".

85 Insert "applicable Australian Accounting Standards" where multiple Australian Accounting Standards were applied; insert reference to a specific Australian Accounting Standard where appropriate (for example: "the measurement standards of AAS 25 Financial Reporting by Superannuation Plans."); or "the accounting policies described in Note X to the Statement".

86 Insert where the engaging party is not XYZ Service Organisation.

87 Use of the report and liability limitation: insert additional wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

The form and content of our report may need to be amended in the light of our audit findings.

[Independence]

We confirm that, to the best of our knowledge and belief, the engagement team is independent of [user entity / entities] in accordance with [specify relevant ethical requirements] in relation to the audit of the Statement. In conducting our audit of the Statement, should we become aware that we have contravened the independence requirements of [specify relevant ethical requirements] we shall notify you on a timely basis.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the Statement including our respective responsibilities.

Yours faithfully

(signed)

.....

Partner

Firm

Acknowledged and agreed on behalf of [the engaging party] by

(signed)

.....

Name and Title

Date

Appendix 2

(Ref: Para. 61)

SERVICE ORGANISATION'S TYPE 2 CONTROLS ASSERTION AND DESCRIPTION OF THE SYSTEM

The following example is for use as a guide only, in conjunction with the considerations described in this Guidance Statement, and is not intended to be exhaustive or applicable to all situations.

Service Organisation's Type 2 Assertion on the [Investment Management Service] System

Assertion by XYZ Service Organisation (XYZ)

The accompanying description has been prepared for clients who have used the [investment management service] system and their auditors who have a sufficient understanding to consider the description, along with other information including information about controls operated by clients themselves, when assessing the risks of material misstatements of clients' financial reports/statements. XYZ confirms that:

(a) The accompanying description at pages [bb-cc] fairly presents the [investment management service] system for processing clients' transactions throughout the period [date] to [date]. The criteria used in making this assertion were that the accompanying description:

(i) Presents how the system was designed and implemented, including:

- The types of services provided, including, as appropriate, classes of transactions processed.
- The procedures, within both information technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for clients.
- The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information was transferred to the reports prepared for clients.
- How the system dealt with significant events and conditions, other than transactions.
- The process used to prepare reports for clients.
- Relevant control objectives and controls designed to achieve those objectives, including the control objectives for [investment management service] provided in Guidance Statement 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* except for [number excluded] control objectives which have been amended or omitted for the reasons set out in the attached Description of Controls in Operation.[88]
- Controls that we assumed, in the design of the system, would be implemented by clients, and which, if necessary to achieve control objectives stated in the accompanying description, are identified in the description along with the specific control objectives that cannot be achieved by ourselves alone.

[88] Insert if certain control objectives specified in this Guidance Statement are not met by relevant controls.

- Other aspects of our control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that were relevant to processing and reporting clients' transactions.

(ii) Includes relevant details of changes to the system during the period [date] to [date].

(iii) Does not omit or distort information relevant to the scope of the system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of clients and their auditors and may not, therefore, include every aspect of the system that each individual client may consider important in its own particular environment.

(b) The controls related to the control objectives stated in the accompanying description were suitably designed and operated effectively throughout the period [date] to [date]. The criteria used in making this assertion were that:

(i) The risks that threatened achievement of the control objectives stated in the description were identified;

(ii) The identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated control objectives from being achieved; and

(iii) The controls were consistently applied as designed, including that manual controls were applied by individuals who have the appropriate competence and authority, throughout the period [date] to [date].

.....

Signed on behalf of [management or those charged with governance] of XYZ

Date

ATTACHMENT 1: Description of the [Investment Management Service] System Accompanying XYZ Service Organisation Management's Assertion

XYZ Service Organisation's [Investment Management Service] System

Services Provided

XYZ Service Organisation (XYZ) provides its clients with [investment management service/s: custody; asset management, property management, superannuation member administration, investment administration or registry] services, which involves [describe services provided].

The System

The stated internal control objectives and related controls included in this report apply to XYZ operations as they relate only to [investment management service] services. Specifically excluded from this report are controls within individual systems, controls executed at client premises and other services provided by XYZ, including [other related services provided to clients].

The effectiveness of controls performed by clients of XYZ should also be considered as part of the overall system of control relating to XYZ's [investment management service] services.

[Describe, as appropriate:[89]

- *The procedures, within both information technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for clients.*
- *The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the reports prepared for clients.*
- *How the system dealt with significant events and conditions, other than transactions.*
- *The process used to prepare reports for clients.*

This may include a description of the flow of transactions or a flowchart].[90]

[Controls at Subservice Organisations][91]

[XYZ uses [name of subservice organisation] to provide [type or name of] services, which form part of the [investment management service] system used by XYZ clients. The [type or name of] services provided by [subservice organisation] are [describe the nature of the services provided]. XYZ's description of the system includes XYZ's monitoring controls over the operating effectiveness of the controls at [subservice organisation] and [includes/excludes][92] the relevant control objectives and related controls of [subservice organisation].

Internal Control Objectives and Related Controls

We set out in this report the control objectives and related controls implemented for XYZ. The specific controls set out in the remainder of the report have been designed to achieve each of the

---

89 Aspects of the system to be described here relate to the manner in which the system operates to provide services to clients but do not include specific controls which are designed to achieve the control objectives.

90 The description may be presented in various formats such as narratives, flowcharts, tables or graphics, with an indication of the extent of manual and computer processing used.

91 Insert this section if XYZ uses a subservice organisation which performs some of the services provided to clients which use the system.

92 Use "includes" if the inclusive method is used and "excludes" if the carve-out method is used with respect to the subservice organisation's services. See ASAE 3402, paragraph 9(a) for definition of carve-out method and paragraph 9(g) for definition of inclusive method.

control objectives. The controls have been in place throughout the period from [date] to [date] unless otherwise indicated.

The controls which were in operation at XYZ throughout the period from [date] to [date], or during a lesser period where specified, to ensure that the identified control objectives over [investment management service] are achieved were:

Internal Control Objective

[Control objectives, including the minimum control objectives for the relevant investment management service/s from GS 007 Appendix 3 and, for any minimum control objectives omitted, the reason for that omission.][93]

Related Controls

[List controls in operation during the specified period relating to each control objective.]

*[**Period of operation:** If the control has not been in operation the entire period or has changed, state the period during which the control was operating and the period during which the change was effective.]*[94]

*[**Complementary client controls:** Describe any complementary user entity controls contemplated in the design of the controls.]* [95]

[93] Where the control objective is excluded from the system description, insert: "This control objective is not relevant to the operation of [service organisation]'s [investment management service] services because [specify reasons] and so has not been addressed by related controls."

[94] This section should be inserted for each control which has not been in operation for the whole period or has changed during the period.

[95] This section should be inserted for each control for which there are complementary user entity controls contemplated in the design of the control. See ASAE 3402 paragraph 9(b) for definition of complementary user entity controls.

Appendix 3

(Ref: Para. 14, 62)

MINIMUM CONTROL OBJECTIVES FOR EACH INVESTMENT MANAGEMENT SERVICE

This Appendix sets out detailed control objectives for the investment management services referred to in paragraph 14 of this Guidance Statement and further defined below. The control objectives listed are the minimum objectives which the service auditor and users of a type 1 or 2 report may reasonably expect to be addressed in the service organisation's description of its investment management service system for each service, but are not intended to be exhaustive. Where a combination of multiple investment management services are provided the service organisation ensures that the combined control objectives adequately address the service offering and that additional objectives are added where there are gaps between the set of objectives for each service.

The control objectives included are those which are likely to be relevant to user entities' controls as they relate to financial reporting and not for other purposes, such as to meet compliance requirements or to assess performance with respect to service level agreements. It remains the responsibility of management, or those charged with governance, of the service organisation to ensure that the described control objectives are likely to be relevant to client's controls as they relate to financial reporting. Unitised funds themselves will not usually prepare controls reports, unless specifically requested to do so, as investors in unitised funds usually rely on publicly available unit prices, where appropriate, with additional procedures to assess the bona fides of the fund such as sighting audited financial statements of the fund, for valuation of their investments, so investors' auditors will not usually need to rely on the unitised fund's controls.

Control objectives for transition of specific user entities to a new investment management service organisation are also not addressed in these minimum control objectives, as they are not relevant to the general financial reporting needs of all user entities, rather they relate to each individual transitioning user entity. A separate engagement may be agreed with the service organisation and service auditor where assurance over the transition is required by the affected user entity.

Control objectives for services provided by unitised funds, unit pricing, transitions or other purposes may be included if the service organisation requires those objectives to be addressed in the engagement.

A. Custody

Definition:

"Custody" is the performance of the following functions on behalf of user entities:

- Maintaining custody of assets and records of the assets held for user entities (such assets may exist in physical or electronic form).
- Collecting income and distributing such income to user entities.
- Receiving notification of corporate events and reflecting such events in the records of user entities.
- Receiving notification of asset purchase and sale transactions on behalf of user entities for which the custodian is holding assets, and reflecting such transactions in the records of user entities.
- Receiving payments from purchasers and disbursing proceeds to sellers for asset purchase and sale transactions.

Control Objectives:

Accepting clients

A1. New accounts[96] are set up completely and accurately in accordance with client agreements and any applicable regulations.

A2. Complete and authorised client agreements are established prior to initiating custody activity.

Authorising and processing transactions

A3. Investment and related cash and foreign exchange transactions are authorised and recorded completely, accurately and on a timely basis in accordance with client instructions.

A4. Investment and related cash and foreign exchange transactions are settled completely, accurately and on a timely basis and failures are resolved in a timely manner.

A5. Corporate actions are identified, actioned, processed and recorded on a timely basis.

A6. Cash receipts and payments are authorised, processed and recorded completely, accurately and on a timely basis.

A7. Securities lending programs are authorised and loan initiation, maintenance and termination are recorded on an accurate and timely basis.

A8. Loans are collateralised in accordance with the lender's agreement and the collateral together with its related income is recorded completely, accurately and on a timely basis.

A9. Collateral is completely and accurately invested in accordance with the lender's agreement.

Maintaining financial and other records

A10. Accounts are administered in accordance with client agreements and any applicable regulations.

A11. Changes to non-monetary static data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.

A12. Investment income and related tax reclaims are collected and recorded accurately and on a timely basis.

A13. Asset positions for securities held by third parties such as sub custodians and depositories are accurately recorded and regularly reconciled.

Safeguarding assets

A14. Assets held (including investments held with depositories, cash and physically held assets) are safeguarded from loss, misappropriation and unauthorised use.

A15. Assets held are appropriately registered and client money is segregated.

Monitoring compliance

A16. Transaction errors are rectified promptly.

[96] Controls over the transition of specific user entities' funds to the custody of the service organisation are not addressed in this objective.

Monitoring subservice organisations[97]

A17. Appointments of subservice organisations, including sub-custodians, are approved, subservice organisations are managed in accordance with the requirements of the client agreement and their activities are adequately monitored.

Reporting

A18. Client reporting in respect of client asset holdings is complete and accurate and provided within required timescales.

A19. Asset positions and details of securities lent (including collateral) are reported to interested parties accurately and within the required time scale.

Information technology

See control objectives: **G.1 – G.13**

B. Asset Management

Definition:

"Asset management" is the investment of money on behalf of clients and involves the performance of the following functions:

- Initiating and executing purchase and sale transactions, either by specific direction from the client or under discretionary authority granted by the client.
- Determining whether transactions comply with guidelines and restrictions.
- Reconciling records of security transactions and portfolio holdings, for each client, to statements received from the custodian.
- Reporting to the client on portfolio performance and activities.

Assets may be managed in accordance with specific client directions, under a discretionary mandate agreed by the client or through a unitised fund, with the investment strategy mandated in an offer document or client agreement. These control objectives are relevant to service organisations providing mandate business, where the investors (user entities) are required to prepare audited financial reports. The objectives are also relevant to service organisations providing asset management services to unitised funds (user entities) but do not include objectives for controls within unitised funds themselves.

Control Objectives:

Accepting clients

B.1 New accounts[98] are set up completely and accurately in accordance with client agreements and/or offer documents and any applicable regulations.

B.2 Complete and authorised client agreements, including investment guidelines and restrictions, are established prior to initiating investment activity.

Authorising and processing transactions

[97] Control objective for monitoring subservice organisations applies when the carve-out method is used to deal with subservice organisations. See ASAE 3402, paragraph 9(a) for definition of carve-out method.

[98] Controls over the transition of specific user entities' assets to the management of the service organisation are not addressed in this objective.

B.3 Asset investment transactions are properly authorised, executed and allocated in a timely and accurate manner.

B.4 Transactions are undertaken only with approved brokers.

B.5 Asset investment and related cash transactions are completely and accurately recorded and settled in a timely manner.

B.6 Corporate events are identified and generated, respectively, and then actioned, processed and recorded accurately and in a timely manner.

B.7 Client new monies and withdrawals are processed and recorded completely and accurately, on a timely basis, and withdrawals are authorised.[99]

Maintaining financial and other records

B.8 Accounts are administered in accordance with client agreements and/or offer documents.

B.9 Changes to non-monetary client data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.[100]

B.10 Investment income and related tax are accurately recorded in the proper period.

B.11 Investments are valued using current prices obtained from independent external pricing sources or an alternative basis in accordance with client agreements.[101]

B.12 Cash and securities positions are completely and accurately recorded and reconciled to third party data.

B.13 Investment management fees and other account expenses are accurately calculated and recorded in accordance with client agreements and/or offer documents.

Safeguarding of assets

B.14 Investments are properly registered and client money is segregated.

B.15 Appropriate segregation exists between the service organisation's asset management and custody services, which may give rise to a conflict of interest.[102]

Monitoring compliance

B.16 Client portfolios are managed in accordance with investment objectives, monitored for compliance with investment guidelines and restrictions and performance is measured.

B.17 Transaction errors are rectified promptly in accordance with the service level agreement and/or offer document or client instructions.

B.18 Broker exposures are monitored in accordance with client agreements and/or offer document.

---

99 Where user entities are unitised funds this objective is not usually applicable but is instead covered by the control objectives for Registry (Section F).

100 Where user entities are unitised funds, this objective is not applicable but is instead covered by the control objectives for Registry (Section F).

101 This objective is not intended to extend to the detailed controls over unit pricing.

102 Control objective applies if the investment administrator also provides custody services which may give rise to a conflict of interest.

Monitoring subservice organisations[103]

B.19 Appointments of subservice organisations, including those providing asset management services, are approved, subservice organisations are properly managed and their activities are adequately monitored on a timely basis.

Reporting to clients

B.20 Client reporting in respect of portfolio transactions and holdings (including collateral) is complete and accurate and provided within required timescales.

Information technology

See control objectives: **G.1 – G.13**

[103] Control objective for monitoring subservice organisations applies when the carve-out method is used to deal with subservice organisations. See ASAE 3402, paragraph 9(a) for definition of carve-out method.

C. Property Management

Definition:

"Property management" is the performance of the following functions:

- Initiating and executing property purchase and sale transactions either by specific direction from the client or under discretionary authority granted by the client.
- Determining whether transactions comply with guidelines and restrictions.
- Reconciling records of transactions for each client, to statements received from the custodian.
- Reporting to the client on performance and activities.

Control Objectives:

Accepting clients

C.1 New accounts[104] are set up completely and accurately in accordance with client agreements and any applicable regulations.

C.2 Complete and authorised client agreements are established prior to initiating investment activity.

C.3 Investment guidelines and restrictions are established and agreed prior to investment management activity.

Authorising and processing transactions

C.4 Investment decisions are properly formulated in accordance with investment guidelines, authorised, implemented and reviewed on a timely basis.

C.5 Property developments are only undertaken in accordance with acceptable risk criteria.

C.6 Costs associated with buying and selling properties are authorised and recorded accurately.

C.7 Tenants' covenants and lease conditions are assessed and authorised on a timely basis.

C.8 Property and related cash transactions are completely and accurately recorded and settled in a timely manner.

C.9 Rental income and service charges are accurately calculated and recorded on a timely basis.

C.10 Client new monies and withdrawals are processed and recorded completely and accurately, withdrawals are appropriately authorised.

Maintaining financial and other records

C.11 Accounts are administered in accordance with client agreements and any applicable regulations.

C.12 Changes to non-monetary client data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.

[104] Controls over the transition of specific user entities' property to the management of the service organisation are not addressed in this objective.

C.13 Complete and accurate records of each property are maintained.

C.14 Properties are valued in accordance with regulatory requirements, client agreements or industry standard.

C.15 Income entitlements are received in full, wherever possible, and expenses, both recoverable and irrecoverable, are controlled.

C.16 Property management fees and other account expenses are accurately calculated and recorded.

C.17 Rents are monitored and rent reviews are recorded promptly and accurately.

C.18 Unitholders' funds are priced and administered accurately and in a timely manner.

Safeguarding assets

C.19 Properties purchased are of good and marketable title.

C.20 Title deeds are safeguarded from loss, misappropriation and unauthorised use.

C.21 Uninvested cash is appropriately registered and client money is segregated.

C.22 Risks arising from investing in property are insured in accordance with client instructions.

Monitoring compliance

C.23 Client portfolios are managed in accordance with investment objectives, monitored for compliance with investment guidelines and restrictions and performance is measured.

C.24 Transaction errors (including guideline breaches) are rectified promptly.

Monitoring subservice organisations[105]

C.25 Appointments of subservice organisations, including those providing property management services, are approved, subservice organisations are properly managed and their activities are adequately monitored on a timely basis.

Reporting to clients

C.26 Client reporting in respect of property transactions, holdings and performance is complete and accurate and provided within required timescales.

Information technology

See control objectives: **G.1 – G.13**

[105] Control objective for monitoring subservice organisations applies when the carve-out method is used to deal with subservice organisations. See ASAE 3402, paragraph 9(a) for definition of carve-out method.

D. Superannuation Member Administration

Definition:

"Superannuation member administration" is the performance of the following functions:

- Maintaining membership data, including the addition of new members and updating existing members' data.
- Receiving contributions and transfers in from employers, members or government and allocating to members' accounts.
- Calculation and payment of benefits to members, beneficiaries, other superannuation funds and/or other third parties where applicable (e.g. financial hardship).
- Receiving instructions from members and trustees regarding investment elections and investment switch requests, and executing these instructions.
- Processing deductions from member accounts, including insurance premiums, administration fees and contribution tax, and remittance of expenses and tax to appropriate parties.
- Liaison with insurers regarding insurance claims, receipt of insurance proceeds and payment of death, TPD and income protection benefits.
- Allocation of fund earnings to members' accounts, through application of crediting rate or adjustment of unit prices.
- Annual review of fund, including roll up of members' accounts and calculation of vested benefits/accrued benefits and annual reporting to members and trustees.

Where the service organisation maintains financial records in addition to member records, the control objectives in Appendix 3 Section E Investment Administration will also be applicable.

Control Objectives:

Accepting clients

D.1 New accounts[106] for superannuation funds and sub-plans are set up completely and accurately in accordance with client agreements and any applicable regulations.

D.2 Member accounts are set up completely and accurately in accordance with fund rules and individual investment and insurance elections.

Authorising and processing transactions

D.3 Contributions and transfers in are correctly classified and allocated to members' accounts, processed accurately and on a timely basis.

D.4 Superannuation benefits payable and transfer values are calculated and recorded accurately and payments are authorised and made on a timely basis.

D.5 Instructions from members and trustees regarding investment elections and investment switch requests are actioned and accurately processed.

[106] Controls over the transition of individual existing superannuation funds to the superannuation member administrator are not addressed in this objective.

D.6 Deductions from member accounts, including insurance premiums, administration fees and contribution tax, are calculated in accordance with member elections, fund rules, relevant legislation and regulations and accurately recorded.

D.7 Expenses and tax deducted are remitted to the appropriate parties on a timely basis.

Maintaining member records

D.8 Changes to members' standing data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.

D.9 Investment earnings are accurately allocated (using authorised crediting rates or unit prices) to member accounts, in accordance with trustee directions and fund rules.

Safeguarding assets

D.10 Superannuation fund, sub-plan and member data is appropriately stored to ensure security and protection from unauthorised use.

Monitoring compliance

D.11 Contributions are received in accordance with fund rules and relevant legislation.

D.12 Transaction errors are identified, notified to members or trustees in accordance with client agreements and rectified promptly if required.

D.13 Benefits payable and transfer values are calculated and paid in accordance with superannuation fund rules, relevant legislation and regulations.

Monitoring subservice organisations[107]

D.14 Appointments of subservice organisations, including those providing superannuation member administration, are approved, subservice organisations are properly managed and their activities are adequately monitored on a timely basis.

Reporting to clients

D.15 Periodic member statements issued to members are accurate and complete and distributed on a timely basis.

Information technology

See control objectives: **G.1 – G.13**

[107] Include control objectives for monitoring subservice organisations when the carve-out method is used to deal with subservice organisations. See ASAE 3402, paragraph 9(a) for definition of carve-out method.

E: Investment Administration

Definition:

"Investment Administration" is the performance of the following functions:

- Maintaining records of securities, cash, and other portfolio assets and liabilities based on information received from the Trustee/Responsible Entity, investment manager, registrar, custodian and others (as applicable).
- Valuations of portfolio assets and liabilities, determining net asset values and reporting thereof.
- Periodic reporting of performance and investment compliance to the Trustee/Responsible Entity, investment manager, and others (as applicable).
- Periodic financial reporting.

Unit pricing and crediting rate calculations are also a function performed in investment administration, for which the control objectives include the accurate calculation of daily or other periodic unit prices or crediting rates with detailed controls allied to that objective. Control objectives relevant to unit pricing, distributions and credit rate calculations have not been listed below, because it would not ordinarily be necessary to meet these objectives in obtaining assurance over the operating effectiveness of controls for investment administration services provided by a service organisation for the purpose of the audit of user entities' financial reports.

Control Objectives:

Accepting clients

E.1 New accounts[108] are set up completely and accurately in accordance with client agreements and any applicable regulations.

E.2 Complete and authorised client agreements are established prior to initiating accounting activity.

Authorising and processing transactions

E.3 Portfolio transactions are recorded completely, accurately and on a timely basis.

E.4 Corporate actions are actioned, processed and recorded accurately and on a timely basis.

E.5 Expenses are appropriately authorised and recorded in accordance with the service level agreement and/or client instructions, on a timely basis.

Maintaining financial and other records

E.6 Accounts are administered in accordance with client agreements.

E.7 Changes to non-monetary static data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.

E.8 Investment income and related tax are accurately calculated and recorded on a timely basis.

[108] Controls over the transition of specific user entities' administration to the management of the service organisation are not addressed in this objective.

E.9 Investments are valued using current prices obtained from independent external pricing sources, or an alternative basis in accordance with client agreements.

E.10 Issue and cancellations of shares/units are recorded completely and accurately in the financial records and units on issue are regularly reconciled to data provided by registry.

E.11 Cash and securities positions are completely and accurately recorded and reconciled to third party data on a timely basis.

E.12 Reconciliations between different systems, including the investment ledger, general ledger and administration system, are performed on a timely basis.

Monitoring compliance

E.13 Errors are identified, notified to clients and rectified promptly in accordance with client agreements.

Monitoring subservice organisations[109]

E.14 Appointments of subservice organisations, including those providing investment administration, are approved, subservice organisations are properly managed and their activities are adequately monitored on a timely basis.

Reporting to clients

E.15 Periodic reports to clients, including calculation of net asset value if required, are accurate and complete and distributed on a timely basis.

E.16 Annual reports and accounts are prepared in accordance with applicable laws and regulations.

Taxation

E.17 Tax policy is updated and reviewed on a timely basis.

E.18 Tax information components and attributes used in the preparation of the income tax computation (current and deferred) are complete and calculated accurately in accordance with tax policy or as agreed with clients.

E.19 Differences between tax and accounting treatments are identified and calculated in accordance with tax policy or as agreed with clients and reported in a timely manner to clients.

E.20 Current and deferred tax balances in the general ledger are accurately recorded in accordance with the tax computation, and processed in a timely manner in accordance with tax policy or as agreed with clients.

Information technology

See control objectives: **G.1 – G.13**

[109] Include control objectives for monitoring subservice organisations when the carve-out method is used to deal with subservice organisations. See ASAE 3402, paragraph 9(a) for definition of carve-out method.

F. Registry

Definition:

"Registry" is the performance of the following functions:

- Maintaining records of the name and address of each shareholder or unitholder investing in the client/issuer, the amount of shares or units in the client owned by each share/unitholder, any reference corresponding to a share/unit holder's positions, the issue date of the share/unit, and the cancellation date of the share/unit (if applicable).
- Recording the amount of shares/units purchased, redeemed, switched, transferred or reinvested by a shareholder or unitholder on the issuer's books upon receipt of a validated request.
- Recording changes to share/unit holdings as a consequence of a corporate action upon receipt of a validated instruction.
- Monitoring the issuance of shares/units in an issue to prevent the unauthorised issuance of shares/units.
- Ensuring that any issuance of shares/units will not cause the authorised number of shares/units in an issue to be exceeded and that the number of new shares/units represented corresponds to the number of cancelled shares/units.
- Performing stakeholder meeting and voting processes such as document design and print procurement, postage, other distribution of documentation and reporting.

Control Objectives:

Accepting clients

F.1 New accounts[110] are set up completely and accurately in accordance with client/issuers agreements.

F.2 Complete and authorised client agreements are established prior to initiating accounting activity.

Authorising and processing transactions

F.3 New share/unitholder activity is clearly established and recorded completely, accurately and in a timely manner.

F.4 Share/unitholder applications, redemptions and switches received are checked, sorted and distributed for processing in a timely manner.

F.5 Share/unitholder transactions and adjustments are authorised, processed accurately, completely and in a timely manner.

F.6 Cash receipts are processed accurately and banked promptly.

F.7 Cheques and confirmation letters issued are accurately generated, matched and authorised prior to despatch.

F.8 Where issued capital is fixed, the number of shares in the registry records match the number of shares on issue.

[110] Controls over the transition of specific user entities' registry to the management of the service organisation are not addressed in this objective.

F.9 Distribution payments and reinvestments are complete, calculated in accordance with the authorised distribution and processed in a timely manner.

Maintaining financial and other records

F.10 Accounts are administered in accordance with client agreements.

F.11 Changes to non-monetary share/unitholder data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.

F.12 Registrar records accurately reflect shares, units and cash held by third parties.

F.13 Share/unit activity is recorded completely, accurately and positions are regularly reconciled.

Safeguarding assets

F.14 Lost and stolen certificates are recorded in a timely manner.

Monitoring compliance

F.15 Transaction errors are identified, notified to clients and share/unit holders in accordance with client agreements and rectified if necessary.

Monitoring subservice organisations[111]

F.16 Appointments of subservice organisations, including those providing registry services, are approved, subservice organisations are properly managed and their activities are adequately monitored on a timely basis.

Reporting to clients

F.17 Client reporting is complete, accurate and processed within required timescales.

Taxation

F.18 Withholding tax for non-residents, or where no TFN/ABN has been provided, is calculated completely, accurately and on a timely basis.

Information technology

See control objectives: **G.1 – G.13**

[111] Include control objectives for monitoring subservice organisations when the carve-out method is used to deal with subservice organisations. See ASAE 3402, paragraph 9(a) for definition of carve-out method.

G. Information Technology

Scope:

Information technology (IT) control objectives are applicable to all investment management services as IT is integral to providing those services. The IT control objectives are addressed for each investment management service reported on, in addition to the specific control objectives that are provided for each investment management service in this Appendix. ~~The IT systems which are addressed in the controls identified to meet these objectives~~

In-scope IT systems are those which are relevant to the investment management services provided to user entities, specifically the financial reporting of user entities with respect to those services.

Examples of General Control Objectives:

Restricting access to systems and data

G.1 Physical access to computer networks, equipment, storage media and program documentation is restricted to authorised individuals.

G.2 Logical access to computer systems, programs, master data, client data, transaction data and parameters, including access by administrators to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques.

G.3 Segregation of incompatible duties is defined, implemented and enforced by logical security controls in accordance with job roles.

Authorising and processing transactions

G.4 IT processing is authorised and scheduled appropriately and deviations are identified and resolved in a timely manner.

Safeguarding assets

G.5 Appropriate measures, including firewalls and anti-virus software, are implemented to counter the threat from malicious electronic attack.

G.6 The physical IT equipment is maintained in a controlled environment.

Maintaining and developing systems hardware and software

G.7 Development and implementation of new systems, applications and software, and changes to existing systems, applications and software, are authorised, tested, approved, implemented and documented.

G.8 Data migration or modification is authorised, tested and, once performed, reconciled back to the source data.

Recovering from processing interruptions

G.9 Data and systems are backed up regularly offsite and tested for recoverability on a periodic basis.

G.10 IT hardware and software issues are monitored and resolved in a timely manner.

G.11 Business and information systems recovery plans are documented, approved, tested and maintained.

Monitoring compliance

G.12 Information technology services provided to clients are approved, managed and performance thresholds met in accordance with the requirements of the client agreement.

Monitoring subservice organisations[112]

G.13 Appointment of subservice organisations, including those providing IT services, are approved, subservice organisations are managed in accordance with the requirements of the client agreement and their activities are adequately monitored.

[112] ~~Include control objectives for monitoring subservice organisations when the carve-out method is used to deal with subservice organisations. See ASAE 3402, paragraph 9(a) for definition of carve-out method.~~

Appendix 4

(Ref: Para. 69)

SERVICE AUDITOR'S TYPE 2 ASSURANCE REPORT

Independent Service Auditor's Assurance Report on the Description of Controls over [Investment Management Service], their Design and Operating Effectiveness

To: XYZ Service Organisation

Scope

We have been engaged to report on XYZ Service Organisation's (XYZ) description at pages [bb-cc] of its [specify investment management service: custody, asset management, property management, superannuation member administration, investment administration or registry] system provided to XYZ's clients throughout the period [date] to [date] (the description), and on the design and operations of those controls related to the control objectives stated in the description.[113]

XYZ's Responsibilities

XYZ is responsible for: preparing the description and accompanying assertion at page [aa], including the completeness, accuracy and method of presentation of the description and assertion; providing the [investment management service/s] covered by the description; stating the control objectives, including relevant controls objectives for [investment management service/s] as outlined in AUASB Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services,* and designing, implementing and effectively operating controls to achieve the stated control objectives.

Service Auditor's Responsibilities

Our responsibility is to express an opinion on XYZ 's description and on the design and operation of controls related to the control objectives stated in that description based on our procedures. We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3402 *Assurance Reports on Controls at a Service Organisation* and with reference to Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*. ASAE 3402 requires that we comply with relevant ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the controls are suitably designed and operating effectively.

An assurance engagement to report on the description, design and operating effectiveness of controls at a service organisation involves performing procedures to obtain evidence about the disclosures in the service organisation's description of its system, and the design and operating effectiveness of controls. The procedures selected depend on our judgement, including the assessment of the risks that the description is not fairly presented, and that controls are not suitably designed or operating effectively. Our procedures included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the control objectives stated in the description were achieved. An assurance engagement of this type also includes evaluating the overall presentation of the description, the suitability of the objectives stated therein, and the suitability of the criteria specified by the service organisation and described at page [aa]. In evaluating the suitability of the objectives stated in the description, we have determined whether each of the minimum control objectives provided in GS 007 for [investment management service/s] is included, or, if any of the minimum objectives are omitted or amended, that the reason for the omission or amendment is adequately disclosed in the description.

[113] If some elements of the description are not included in the scope of the engagement, this is made clear in the assurance report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Limitations of Controls at a Service Organisation

XYZ's description is prepared to meet the common needs of a broad range of clients and their auditors and may not, therefore, include every aspect of the system that each individual client may consider important in its own particular environment. Also, because of their nature, controls at a service organisation may not prevent or detect all errors or omissions in processing or reporting transactions. Also, the projection of any evaluation of effectiveness to future periods is subject to the risk that controls at a service organisation may become inadequate or fail.

Opinion

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion are those described at page [aa]. In our opinion, in all material respects:

(a) the description fairly presents the [investment management service] system as designed and implemented throughout the period from [date] to [date];

(b) the controls related to the control objectives stated in the description were suitably designed throughout the period from [date] to [date]; and

(c) the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from date] to [date].

Description of Tests of Controls

The specific controls tested and the nature, timing and results of those tests are listed on pages [yy-zz].

Intended Users and Purpose

This report and the description of tests of controls on pages [yy-zz] are intended only for clients who have used XYZ's [investment management service] system, and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by clients themselves, when assessing the risks of material misstatements of clients' financial reports/statements.

[*Service auditor's signature*]

[*Date of the service auditor's assurance report*]

[*Service auditor's address*]

Appendix […]

(Ref: Para. […])

TYPES OF OPINIONS

Unqualified Service Auditor's Report:

No exceptions

An unqualified service auditor's report may be issued by the service auditor where it has sufficient evidence to reasonably conclude, in all material respects, on the matters within the scope of the engagement; i.e., fairness of description of the control activities by the service organisation, suitability of design and operating effectiveness of the control activities.

Not material exceptions

Where minor exceptions relating to the tests of operating effectiveness of control activities are identified, an unqualified service auditor's report may still be issued by the service auditor where such exceptions fall within acceptable parameters determined by the service auditor, based on professional judgement. In order for exceptions to be concluded as minor they should, individually and in aggregate, be neither material to the achievement of the control objective nor pervasive to the service organisation or the control activities being performed. In such circumstances, no additional wording is required to be placed before the service auditor's opinion, but the nature and extent of the minor exceptions are described in the appendix to the service auditor's report as part of the results of the testing performed.

Non-applicable control objective

Where the service auditor is unable to opine on a control objective, or part thereof, because one or more related control activities were not required to operate during the reporting period (i.e. an event-driven control activity), no additional wording is required to be placed before the service auditor's opinion, but an explanation setting out the non-applicable control objective is included in the appendix to the service auditor's report as part of the results of the testing performed. Examples of event driven control activities include data migrations and new client take-on.

Where a control objective is non-applicable, management and those charged with governance also add a corresponding explanatory paragraph in the written representation. In such circumstances, the service auditor makes appropriate enquiries to satisfy itself that the control activities did not operate during the reporting period.

Qualified Service Auditor's Report:

Material exceptions

The Service Auditor issues a qualified service auditor's report when either:

- The service auditor is unable to obtain sufficient evidence to conclude, in all material respects, on the matters within the scope of the engagement i.e., fairness of presentation, suitability of design and operating effectiveness of the control activities; or
- The service auditor, based on the evidence obtained, concludes that, in all material respects, the matters within the scope of the engagement i.e., fairness of presentation, suitability of design and operating effectiveness of the control activities are not in accordance with the relevant control objectives (or criteria).

The following circumstances may therefore give rise to a qualified service auditor's report:

- Where there are omissions or errors in respect of the control objectives;
- Where there are major exceptions in relation to the fair presentation of control activities;

- Where there are major exceptions in relation to the design suitability of control activities; and
- Where major exceptions (which are not pervasive) are identified in relation to the operating effectiveness of control activities:
    - Exceptions may be major where they result in one or more control objectives not being met that do not impact upon the conclusion that the overall system of control activities is designed and operating effectively. For example, where a control objective is not met but does not impact on the achievement of other control objectives; or
    - Exceptions may be considered pervasive where the ineffective design or operation of the impacted control activities and control objectives causes the overall system of control to not operate effectively. For example, where the exceptions result in a control objective that underpins the achievement of one or more other control objectives not being met. This may include control objectives over system access or programme change where other control objectives rely on information produced from the affected systems.

Adverse Service Auditor's Report

Material and Pervasive exceptions

Where the service auditor, having obtained sufficient and appropriate evidence, concludes that misstatements, omissions or exceptions (whether individually or in aggregate) are both material and pervasive to the control objectives as a whole, then an adverse service auditor's report is issued.

When expressing an adverse opinion, the service auditor states that the matters within the scope of the engagement i.e., fairness of presentation, suitability of design and operating effectiveness of control activities relating to the subject matter are not in accordance with the control objectives (or criteria) in all material respects due to the significance of the matters giving rise to the adverse service auditor's report.

Appendix 5

(Ref: Para. 9970)

SERVICE AUDITOR'S DESCRIPTION OF THE NATURE, TIMING AND EXTENT OF TESTS APPLIED TO CONTROLS

The description does not duplicate the service auditor's detailed assurance programme, since that would provide more than the appropriate level of detail. There is no standardised format for presenting a description of tests applied to controls, however the following elements are ordinarily included in the description:

1. ~~Cross reference to the control objectives and allied controls[114] intended to achieve those objectives described in the~~The service organisation's ~~description of its system~~control objectives.

~~1.~~2. The service organisation's control activities to meet each control objective.

~~2.~~3. Assessment of the fair presentation of the description, including:

(a) identification of any inadequacies, omissions or inaccuracies in the description of control objectives;

(b) identification of any inaccuracies in the description of controls, as designed and implemented.

~~3.~~4. Assessment of the suitability of the design, including identification of any inadequacies in the design of the controls to achieve their stated objectives.

~~4. Tests of operating effectiveness~~The tests performed for each control activity, including~~:~~

~~(a)~~5. ~~nature, timing and extent of tests conducted including whether~~ the ~~whole population was tested or a sample, in this case~~procedures performed to determine the ~~size~~completeness and accuracy of the ~~sample;~~population from which items were selected for testing.

~~(b) number and nature of deviations noted;~~

~~(c) remedial action taken by management, if any; and~~

~~(d)~~6. The results of ~~the tests in sufficient detail to enable user auditors to assess the effect~~each of those tests on ~~their assessment of control risk~~a control activity by control activity basis, including the inability to test a control activity.

~~**Description of nature of tests**~~

7. ~~The~~ The conclusions reached by the service auditor.

The diagram below illustrates an example tabular layout to present this information alongside the description prepared by management and indicates the ownership for each of these inputs. This illustration does not include details of the process description that provides context for the operation of the Control Activities.

Control Objective #3.5	**Cash and investment positions are completely and accurately recorded**	
Control Activity	**Description of test procedures performed**	**Result of testing**

~~[114] If applicable, complementary user entity controls would also be described. See ASAE 3402, paragraph 9(b) for definition of complementary user entity controls.~~

3.5.1 On a daily basis, cash records per the administration system are reconciled to custodian bank records using an automated reconciliation system. Teams resolve the exceptions and annotate the exceptions report with explanations and/or actions taken to resolve each item. Reconciling items are reported on an exceptions report.	For a selection of days, obtained electronic copies of the exceptions report from the reconciliation system and inspected the annotations made by the operations team of explanations for, and/or actions taken to resolve, each item. For a selection of exceptions, inspected evidence of supporting documentation being retained for actions taken.	No exceptions noted.
3.5.2 On a daily basis, the client administration manager reviews the reconciliation exceptions report for evidence that all exceptions have been explained and/or resolved. This review is evidenced by electronic sign off on the exceptions report, copies of which are archived in the reconciliation system.	For a selection of days, obtained electronic copies of the exceptions report from the reconciliation system and inspected the electronic signature of the client administration manager as evidence of review.	Exception noted: For one out of a selection of 30 days, there was no evidence of sign off by the client administration manager on the electronic copy of the reconciliation exceptions report. No other exceptions noted.
Control Objective 4.1	**New accounts are set up completely and accurately in accordance with client agreements and any applicable regulations**	
4.1.1 [insert control activity]	We did not perform any procedures over the control activities as there were no new clients during the period [insert dates].	Not applicable

Service organisation responsibility for completion

Service auditor responsibility for completion

The paragraphs that follow, outlines further information on the service auditor's description of the nature of the tests performed.

Nature

In describing the nature of tests carried out ~~by~~ , it is desirable for the service auditor ~~may include~~ to define what is meant by such procedures as enquiry, inspection, observation and re-performance. ~~Examples of descriptions of these procedures~~Illustrative definitions, which may assist the service auditor in ~~describing tests of controls~~this regard are set out below.

~~1.~~ *Enquiry*~~:~~

- Enquired of ~~appropriate~~ [XYZ] personnel.

- ~~Conducted enquiries~~ Enquiries seeking relevant information or representation from personnel were performed to obtain, among other things:

  - Knowledge, additional information and affirmation regarding the control ~~of procedures~~activities.

  - Corroborating evidence of the ~~controls~~control activities.

Observation

Observed the application or existence of specific control activities as represented.

~~2.~~ *Inspection*~~:~~

- Inspected documents and records indicating performance of the ~~controls~~control activities. This included, among other things:

  - Inspection of reconciliations and management reports that age and/or quantify reconciling items to assess whether balances and reconciling items appear to be ~~properly~~ monitored, controlled and resolved on a timely basis, as required by the related control activity.

  - Examination of source documentation and authorisations related to selected transactions processed.

  - Examination of documents or records for evidence of performance, such as the existence of initials or signatures.

  - Inspection of ~~XYZ's~~ systems documentation, such as operations~~,~~ manuals, flow charts, and job descriptions.

~~3. Observation:~~

- ~~Observed the application or existence of specific controls as represented.~~

4. *Re-performance:*

- Re-performed the control activity or processing application of the ~~controls~~control activities to check the accuracy of their operation. This included, among other things:

  - Obtaining evidence of the arithmetical accuracy and correct processing of transactions by performing independent calculations.

  - Re-performing the matching of various system records by independently matching the same records and comparing reconciling items to reconciliations prepared by ~~XYZ~~the service organisation.

Appendix 6

(Ref: Para. 86 and 89)

EXAMPLES OF SERVICE AUDITOR'S REPORTS ON FINANCIAL INFORMATION

The following example service auditor's reports are for use as a guide only, in conjunction with the considerations described in this Guidance Statement, and will need to be varied according to individual requirements and circumstances.

Example 1: A service auditor's report to the engaging party on the audit of specified assertions of the user entity's assets, liabilities or transactions in a financial statement prepared by a service organisation.

Example 2: A service auditor's report to the engaging party on the audit of a financial statement of the user entity's assets, liabilities or transactions prepared by a service organisation.

Example 1: Service Auditor's Report on Specified Assertions

Independent Auditor's Report

To [the engaging party][115]

Report on Specified Assertions of Assets [and liabilities or transactions] in the Statement[116]

We have audited the [specify assertions audited][117] of the assets [and liabilities or transactions] of the accompanying [title of financial statement] ("the Statement"), which comprises the [statement of assets and liabilities] as at [date], and the [statement of transactions] for the year then ended, concerning the assets [and liabilities or transactions] of [user entity][118] for which XYZ Service Organisation (XYZ) provides [specify investment management service provided: custody, asset management, property management, superannuation member administration, investment administration or registry] services, set out on pages [bb] to [cc].[119] The Statement has been prepared by management of XYZ using the basis of preparation described in Note X.

XYZ Management's Responsibility for the Statement

XYZ is responsible for [investment management service] on behalf of [user entity]. Management of XYZ is responsible for the preparation and fair presentation of the Statement in accordance with [specify framework applied][120] and has determined that the accounting policies described in Note X to the Statement are appropriate to meet the financial reporting requirements of the [title of contract or service level agreement] and are appropriate to meet the needs of [user entity]. Management is also responsible for such internal control as management determines is necessary to enable the preparation of the Statement that is free from material misstatement, whether due to fraud or error.

---

115 Insert name of user entity or the name of the engaging party, if other than the user entity.

116 The subheading "Report on the Statement" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

117 Insert specified assertions audited:
- for transactions or events: occurrence, completeness, accuracy, cut-off and classification;
- for balances: existence, rights and obligations, completeness or valuation and allocation; or
- for presentation and disclosure: occurrence, rights and obligations, completeness, classification and understandability and accuracy and valuation.

118 Where the assets are held in the name of a nominee holding company insert "held in the name of [nominee holding company]".

119 When the auditor is aware that the Statement will be included in a document that contains other information, the auditor may consider, if the form of the presentation allows, identifying the page numbers on which the Statement is presented.

120 Insert "applicable Australian Accounting Standards" where multiple Australian Accounting Standards were applied; insert reference to specific Australian Accounting Standard where appropriate (for example: "in accordance with the measurement standards of AAS 25 *Financial Reporting by Superannuation Plans.*"); or "the accounting policies described in Note X to the Statement".

Auditor's Responsibility

Our responsibility is to express an opinion on the [specify assertions audited] in respect of the assets [and liabilities or transactions] in the accompanying Statement, based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the assets [and liabilities or transactions] set out in the Statement are free of material misstatement in respect of the specified audit assertions.

An audit of the [specify assertions audited] of the assets [and liabilities or transactions] in the Statement involves performing procedures to obtain audit evidence that the assets [and liabilities or transactions] set out in the Statement [insert relevant assertion: for example for existence insert "exist as at [date]" or for valuation insert: "have been appropriately valued in accordance with [specify framework]"]. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Statement in relation to the specified assertions, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the [specify assertions audited] of the assets [and liabilities or transactions] in the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of XYZ's internal control.[121] An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management of XYZ with respect to the [specified assertions] of the assets [and liabilities or transactions].

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

[Insert either:

No uncorrected misstatements, other than amounts which are clearly trivial, have been identified during the course of our audit; or

Uncorrected misstatements, other than amounts which are clearly trivial, which, have come to our attention during the course of our audit and are not material individually or in aggregate in relation to the [specify assertions audited] in respect of the assets [and liabilities or transactions] in the accompanying Statement but may be material when aggregated with any uncorrected misstatements identified by [user entity]'s auditor, are listed in an attachment to this report. These uncorrected misstatements do not affect our audit opinion.]

Opinion

In our opinion, the Statement presents fairly, in all material respects, the [specify assertions audited] of the assets [and liabilities or transactions] of [user entity], for which XYZ provides [investment management service] services, as of [date] in accordance with [specify framework].

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note X to the Statement, which describes the basis of accounting. The Statement has been prepared by XYZ for distribution to the [the Trustee/those charged with governance] of [user entity]. As a result, the Statement may not be suitable for another purpose. Our report is intended solely for XYZ, [user entity] and their auditor and

[121] In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the specified assertions of the assets [and liabilities or transactions] in the Statement, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the [specify assertions audited] of the assets [and liabilities or transactions] in the Statement in order to design audit procedures that are appropriate in the circumstances."

should not be distributed to any other parties or used for any other purpose other than that for which they are prepared.[122]

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities].

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

[122] Use of the report and liability limitation: insert additional/alternative wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

[Attachment: Uncorrected Misstatements][123]

In the course of conducting our audit procedures at XYZ for the purpose of reporting on [specific assertions] we have identified the following uncorrected misstatements, other than amounts which are clearly trivial, which were determined by [management/those charged with governance] to be immaterial, both individually and in aggregate, to the [specific assets and liabilities or transactions] taken as a whole. These misstatements are reported solely for the purpose of providing information to clients of XYZ and their auditors and they do not affect our audit opinion:

[Insert: List of uncorrected misstatements]

[123] Include attachment where uncorrected misstatements were identified.

Example 2: Service Auditor's Report on a Statement

INDEPENDENT AUDITOR'S REPORT

To [the engaging party] [124]

Report on the Statement[125]

We have audited the accompanying [title of financial statement] ("the Statement"),[126] which comprises the [statement of assets and liabilities] as at [date], and the [statement of transactions] for the year then ended, concerning the assets [and liabilities or transactions] of [user entity][127] for which XYZ Service Organisation (XYZ) provides [specify investment management services provided: custody, asset management, property management, superannuation member administration, investment administration or registry] services set out on pages [bb] to [cc].[128] The Statement has been prepared by management of XYZ on the basis of preparation described in Note X.

Management's[129] Responsibility for the Statement

XYZ is responsible for [investment management service] on behalf of [user entity]. Management of XYZ is responsible for the preparation and fair presentation of the Statement in accordance with [specify framework][130] and has determined that the accounting policies described in Note X to the Statement are appropriate to meet the financial reporting requirements of the [title of contract or service level agreement] and are appropriate to meet the needs of [user entity]. Management is also responsible for such internal control as management determines is necessary to enable the preparation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit of the Statement involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to XYZ's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of XYZ's internal control[131]. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the Statement.

---

124 Insert name of user entity or the name of the engaging party, if it is not the user entity.

125 The subheading "Report on the Statement" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

126 If certain assertions are specifically excluded from the audit then insert: "except for [specify assertions excluded, e.g. presentation and disclosure] of the Statement."

127 Where the assets are held in the name of a nominee holding company insert "held in the name of [nominee holding company]."

128 When the auditor is aware that the Statement will be included in a document that contains other information, the auditor may consider, if the form of the presentation allows, identifying the page numbers on which the Statement is presented.

129 Insert the title of those charged with governance, e.g. directors/trustees/committees. For example, "Director's Responsibility for the Statement". Insert appropriate title, when prompted, throughout the report.

130 Insert "applicable Australian Accounting Standards" where multiple Australian Accounting Standards were applied; insert reference to specific Australian Accounting Standard where appropriate (for example: "in accordance with the measurement standards of AAS 25 *Financial Reporting by Superannuation Plans.*") or "the accounting policies described in Note X to the Statement".

131 In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the Statement, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to XYZ's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances."

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

[Insert either:

No uncorrected misstatements, other than amounts which are clearly trivial, have been identified during the course of our audit; or

Uncorrected misstatements, other than amounts which are clearly trivial, which have come to our attention during the course of our audit and are not material individually or in aggregate in relation to the Statement, but may be material when aggregated with any uncorrected misstatements identified by [user entity]'s Auditor, are listed in an attachment to this report. These uncorrected misstatements do not affect our audit opinion.]

Opinion

In our opinion, the attached Statement presents fairly, in all material respects, the assets [and liabilities] of [user entity] as of [date] and transactions for the [period] then ended, for which XYZ provides [investment management service] services, in accordance with in accordance with the basis of accounting described in Note X.

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note X to the Statement, which describes the basis of accounting. The Statement has been prepared by XYZ for distribution to the [the Trustee/those charged with governance] of [user entity]. As a result, the Statement may not be suitable for another purpose. Our report is intended solely for XYZ, [user entity] and their auditor and should not be distributed to any other parties or used for any other purpose other than that for which they are prepared.[132]

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities].

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

[132] Use of the report and liability limitation: insert additional/alternative wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

[Attachment: Uncorrected Misstatements][133]

In the course of conducting our audit procedures at XYZ Service Organisation for the purpose of reporting on [the Statement] we have identified the following uncorrected misstatements, other than amounts which are clearly trivial, which were determined by [management/those charged with governance] to be immaterial, both individually and in aggregate, to the [specific assets and liabilities or transactions/Statement] taken as a whole. These misstatements are reported solely for the purpose of providing information to clients of XYZ and their auditors and they do not affect our audit opinion:

[Insert: List of uncorrected misstatements]

[133] Include attachment where uncorrected misstatements were identified.