

New Zealand Auditing and Assurance Standards Board (NZAuASB)

Minutes of the Meeting of the NZAuASB held at 9:00am on Wednesday, 12 February 2025 at XRB Offices, Wellington

Present: Marje Russ, Chair
John Kensington, Deputy Chair
Todd Beardsworth, Board Member
David Hay, Board Member
Richard Kirkland, Board Member
Doug Niven, Board Member
Vasana Vanpraseuth, Board Member

Apologies: Wendy Venter, Chief Executive (Agenda 1)

In attendance: Misha Pieters, Director Audit and Assurance
Karen Tipper, Technical Director Assurance
Anna Herlender, Project Manager (Agenda 1,2,3, 5, 6 and 11)
Lisa Thomas, Senior Project Manager (Agenda 3 and 8)
Bruce Mcniven, Project Manager (Agenda 5 and 6)
Sharon Walker, Senior Project Manager (Agenda 9)
Nimash Bhikha, Senior Project Manager (Agenda 8)
Michelle Lombaard, Director Accounting (Agenda 8)

PUBLIC SESSION – AGENDA ITEM 2 - 10

2. BOARD MANAGEMENT

2.1 Action list

The Board NOTED the action points arising from prior meetings.

2.2 Chair's Report

The Board RECEIVED a verbal update from the NZAuASB Chair, including:

- Thanking the team for their work on the SPI review standard which will be gazetted on 13 February.
- A potential visit from Jeremy Nicholls (Capitals Coalition, Sustainable Development Goals Development) in September 2025.

2.3 AUASB Update

The Board RECEIVED a verbal update on Australian developments, including:

- The approval of ASSA 5000 (equivalent to ISSA 5000) in Australia with an application date of years commencing 1 January 2025. ASSA 5000 will prohibit direct assistance from internal auditors, similar to the prohibition that exists for audits of financial statements in Australia. The assurance will be phased in over time to reach assurance over the full climate statement. The phasing is in a separate standard.

- As part of the adoption of ISSA 5000, the AUASB will require compliance with the new Part 5 of the IESBA Code for periods commencing 1 January 2025. However, the APESB is yet to expose Part 5 in Australia. The APESB is expected to consult with a view to making a decision by mid-2025.
- About the Treasury consultation in Australia on merging the Financial Reporting Council with accounting and auditing standards setters. Feedback is not sought on whether to merge rather on the process, including on the composition of the boards.

3. NZAuASB WORKPLAN

The Board DISCUSSED the developing statement of performance expectations and upcoming priorities including:

- The importance of working together with Australia as a project to revise Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* commences. There are challenges in practice to rely on service organisations. Updating the guidance will be helpful however it was noted that there is no equivalent guidance for service organisations. The idea of introducing requirements in the licensing conditions was discussed. The focus of the project is not for scope 3 GHG emissions in the value chain and climate statements, rather on use of service organisations in preparing financial statements;
- When would be the right time to consider implications for assurance relating to the developing Māori reporting framework (He Tauira) and connections with work on assurance of service performance information;
- Next steps given the publication of ISSA 5000. It was highlighted that firms are already adjusting their methodology in line with ISSA 5000 requirements. There will be a risk that the updated firm methodologies will be misaligned with existing XRB standards if the XRB determined not to adopt ISSA 5000. There is growing demand for the assurance over the climate statement and for use of ISSA 5000. Anecdotal feedback from non-accountant firms is that they found ISSA 5000 useful and that they were also preparing to adopt and apply ISSA 5000 requirements. The Board's preliminary view is that the XRB would need to look to adopt ISSA 5000 and that strategic input from the XRB Board is needed.
- Various approaches to developing guidance and the role of the XRB to continue to explore to support the implementation of standards.
- IESBA's upcoming roundtable discussions on the project on governance and culture of firms. The discussion raised whether a standard setting solution will solve the problem. There will always be rogue players and standards cannot solve for the human element. The Board highlighted the need to engage with other professions. The Board also highlighted the need for the IESBA to explore further the extensive academic studies that have researched culture and governance.
- Further thought is needed about how to articulate costs and benefits. There are various approaches to explore and also different perspectives for what is a cost or benefit (e.g., costs for the assurance practitioner might be a benefit for the investor).

4. CODE OF ETHICS

The Board NOTED the issue of the International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) by the IESBA in January and DISCUSSED the extent to which the XRB's key submission points had been addressed in the final standard including:

- Mixed views relating to the extent to which competency should have been further addressed in the IESSA. Some were concerned that the requirements do not address the risk of practitioners accepting work when they might “not know what they do not know” to assess competence. Others highlighted that existing requirements and established processes for engagement acceptance would ensure that competency is a key factor in deciding whether or not to accept the engagement.
- Some highlighted that prescriptive independence requirements might further restrict the availability of competent individuals. For example, prescriptive rotation requirements. Others highlighted that this argument could undermine independence.
- While some were disappointed that the IESBA had not responded to the XRB's submission, this was not unexpected as the IESBA had agreed its own rationale, which was not aligned with the XRB's approach of keeping the regime open to as many as possible.

The Board DISCUSSED potential next steps, acknowledging the need for strategic input from the XRB Board. Doing nothing was not considered to be an option, given the strengthening of the international standards. The importance of aligning with the international standards was highlighted, noting that the new standards will be required in Australia. However, the Board emphasized the need to articulate the scope and application within the New Zealand context and within the mandate of the XRB.

Any decision should not imply that any assurance practitioner, performing any sustainability assurance work (e.g., product certification or broader assurance work), would be required to apply the IESSA for work undertaken in New Zealand. There is a need for further international collaboration and clarification on how others will use the IESSA. Any XRB decision to adopt the standard should not be seen as adding requirements to a range of assurance activities that are not covered by the XRB's work.

The current approach in the XRB's standards for the mandatory greenhouse gas (GHG) assurance regime is to include principles within the temporary standard (NZ SAE 1) consistent with international standards, and require compliance with those principles in addition to requiring disclosure of what professional and ethical standards have been applied. In line with these requirements, these reports may refer to PES 1 in the assurance report. Given the immediate priority and mandatory assurance over the GHG emissions disclosures, the preliminary merits of the following next steps were discussed:

- Consult and adopt the IESSA into PES 1, the XRB's existing standard on ethics and independence for assurance engagements with further consideration needed to restrict the application of this Part for the New Zealand context. This recognises that the international standards issued by the IESBA have moved. It fulfils one of the functions of the XRB in line with the Financial Reporting Act, to issue standards for the purposes of any rules or codes of ethics of an association of accountants where those rules or codes require the association's members to comply with those. However, such adoption should not require all practitioners doing any sustainability assurance in the widest sense to have to follow that Part.
- The existing temporary standard, NZ SAE 1 includes principles for ethics and independence. These principles were informed by what was in the previous IESBA Code as well as other ethical and independence principles for other assurance practitioners

who may not be professional accountants. Given the revised international standard from IESBA, explore and consult on whether any new principles or adjustments (for example for value chain considerations) should be included in the temporary standard NZ SAE 1 that should be mandatory for the assurance over GHG emission disclosures.

- The Board noted the importance of maintaining a period of stability with the temporary standard. The merits of not making too many changes to the temporary standard can be explored, with recognition that we were open to be agile and adjusting as we learn more until such time as a final decision on the temporary standard is made. Continue to require assurance practitioners to identify what professional and ethical standards were applied, which may refer to the updated PES 1 that includes Part 5.
- Continue to monitor the developments relating to IESSA and other professions ethical requirements including:
 - Adoption by other jurisdictions.
 - Adoption by other assurance practitioners.
 - Known issues and challenges with adoption of IESSA.
 - Matters raised by regulators.

Such monitoring will inform the Board regarding next steps for the scope and application of PES 1 and next steps for the temporary standard NZ SAE 1, including informing if and when to move to one set of standards.

The Board NOTED that if the above recommendation aligns with the strategic direction of the XRB Board, it is important that the right story is told and any perception risk of uneven playing fields for different assurance practitioners is front footed and managed.

5. USING THE WORK OF AN EXTERNAL EXPERT

The Board NOTED the issue of the new standard by the IESBA, *Revisions to the Code Addressing Using the Work of an External Expert*. The Board DISCUSSED how the XRB's recommendations were dealt with by the IESBA in finalising the standard, reflecting that overall the XRB's submission had been in favour of the revisions that introduced a framework for assessing the competence, capability and objectivity of the experts.

The Board AGREED:

- In principle to adopt the standard. However, this decision will be informed by the next steps to adopt Part 5 into PES 1.
- The relevant sections would apply to those financial statement assurance practitioners (part 2 and 3) and to those sustainability assurance practitioners, in line with any XRB's decision on the scope of Part 5.
- To consider what the "other professional standards" referred to in the standard are (para. 5390.3)

The Board REQUESTED that the question of how to approach the analysis of costs and benefits needs to be considered further across the XRB.

6. SERVICE PERFORMANCE INFORMATION

The Board RECEIVED an update on the project to address reporting and assurance challenges for service performance information.

Vasana Vanpraseuth and Todd Beardsworth volunteered to assist a subcommittee to progress the approval of a discussion document, as needed.

The Board expressed concern at the updated project timeline and encouraged a more ambitious timeframe that could be extended later if needed. Staff were encouraged to bring the timeline forward to avoid consulting over the summer months to ensure engagement.

The Board discussed the outline of the discussion document and provided the following input:

- The need for targeted sections and questions to targeted audiences. A comprehensive comms plan will be needed.
- Avoid using the phrase “problems”.
- Consider how to include iwi in the engagement and consultation, and what we have learnt through He Tuira.

7. SERVICE PERFORMANCE GUIDANCE

The Board DISCUSSED the approach to and priority of developing guidance to support the implementation of the auditing standard in light of the challenges we have heard. Feedback to inform the development of guidance included:

- Support for developing comprehensive case studies as an approach. However, the case study fact pattern needs to illustrate an example of good reporting with an appropriate and meaningful mix of service performance measures that focus on outputs and outcomes, not inputs.
- The need to encourage preparers to have good systems to support appropriate and meaningful measures and the need to encourage practitioners to think differently (not just follow the money approach as is done in the audit of financial statements).
- Consider the role of risk assessment and materiality considerations to reflect the extent of procedures required and use questions to prompt the practitioner to identify sources of evidence.
- The timelines for the guidance, with the priority to focus on the discussion paper.

8. GOING CONCERN

The Board NOTED the approval of the revised going concern standard by the IAASB in December and DISCUSSED how the XRB’s recommendations were dealt with by the IAASB in finalising the Approved Text of ISA 570 (Revised 2024) *Going Concern*.

The Board reiterated its stance that a holistic reporting ecosystem approach is essential to meet user needs concerning the going concern assumption. The importance of capital retention as the key concern of users was highlighted. Robust disclosures supported by the audit thereover is in the public interest. Management holds the primary responsibility for assessing whether the entity is a going concern and, as the owner of this assertion, is best positioned to communicate their determination and the appropriateness of using the going concern basis of accounting to users.

Without an explicit requirement for entities to provide clear statements regarding their going concern status, auditors will continue to face challenges in enhancing their procedures related to management's assessment. This is because, in many instances, there is no solid basis for such assessments.

The Board reiterated the need for a broader discussion on the articulation of costs and benefits. The Board agreed that the next steps will be for the XRB to consider approval of the standards once it is certified by the PIOB.

The Board NOTED the plans for staff guidance.

9. PUBLIC INTEREST ENTITY (PIEs)

The Board NOTED the update on PIE related developments from the IAASB, including the issue of a limited consultation. The Board AGREED not to submit to the IAASB on the post-exposure limited consultation.

In terms of the impact of the decision to introduce the term public traded entity (PTE) in scoping the differential requirements in the auditing standards, the Board DISCUSSED the cost implications, with no identified benefits of expanding the requirements to all possible public traded entities in New Zealand.

The Board were updated on the preliminary discussions that have been held with the FMA. The Board AGREED the need to:

- Engage further with the FMA and document an agreed rationale with the regulator as to the reasons why some of the public traded entities are not regulated by the FMA, and therefore why in the New Zealand context there may be reason to define public traded entity in an appropriate way for the New Zealand context, noting that only some but not all of the possible PTEs would be regulated by the FMA.
- Engage with the AUASB staff following discussions at the AUASB to understand the types of entities that might be PTEs in Australia, and whether there are any differences.
- Explore how to adopt the revisions in line with our harmonisation and convergence approach, while ensuring the standard is fit for purpose for New Zealand.

The Board were also updated on discussions with the FMA on the application of the independence requirements for all FMC reporting entities, even those with lower public accountability.

The Board REQUESTED that two separate papers be developed to:

- Confirm the rationale as to why the reference to FMC HLPAs in the New Zealand context remains fit for purpose and aligned with the XRB's harmonisation and convergence policy.
- Explore whether PIE requirements in the Code should be expanded to all FMC entities.

10. USER RESEARCH

The Board DISCUSSED the possibility of commissioning research on users' perceptions on trust and confidence and the role of assurance over GHG emissions disclosures and the climate statement and RECOMMENDED:

- Inclusion of more direct interview questions to understand how the information will be used, and to gain an understanding of the users' level of understanding about levels of assurance and modifications and their preferences for assurance.
- To consider including policy analysts, Climate Change Commission, the Ministry for the Environment, Parliamentary Commissioner of the Environment, institutional and retail investors in the interviewee pool.

The Board AGREED that the research was important but that the timing should be delayed given that the first mandatory GHG assurance reports will only be issued in April 2025 and that the research would benefit from more information being available in the public, as well as allowing the regime to settle. The need to connect with the XRB's ongoing effectiveness review research of the climate statements was another reason to delay this research.

NON-PUBLIC SESSION

Meeting closes