

**EXPLANATORY FOREWORD TO ENGAGEMENT STANDARDS***Issued by the Board of the New Zealand Institute of Chartered Accountants***CONTENTS**

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Appendix: Ethical and Professional Standards	

**IMPORTANT NOTE:**

The NZICA Code of Ethics (effective from 15 June 2019) (“revised Code of Ethics”) replaces the NZICA Code of Ethics (application 07/2017) (“extant Code of Ethics”). Consequently, any references to provisions of the extant Code of Ethics in this Professional Standard should be read as references to the equivalent provisions in the revised Code of Ethics [noted in square brackets – for ease of reference]. Where the text of this Professional Standard is not consistent with the revised Code of Ethics, the revised Code of Ethics shall override the text of this Professional Standard.

**IMPORTANT NOTE 2:**

The External Reporting Board’s (XRB) legislative mandate to set standards related to assurance engagements (see paragraph 25.2 of this standard) has been extended to include standards for related services engagements. “Related services” are services to perform agreed upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

Paragraph 38 of the CA ANZ By-laws; Paragraph 4 of the NZICA Rules and paragraph NZ R 113.1 of the NZICA Code of Ethics all require members to comply with pronouncements issued by (amongst others) both NZICA and XRB (including its standard setting boards). As a consequence, if the XRB introduces a standard that corresponds to an existing NZICA standard, NZICA will consider whether it is appropriate to withdraw its standard in order to minimise the instances in which members are required to comply with more than one standard.

As the New Zealand Auditing and Assurance Board (NZAuASB) (an XRB standard setting board) has issued ISRS NZ 4400 Agreed Upon Procedures, NZICA has decided to withdraw APS-1 Agreed Upon Procedures (APS-1) – see APS-1 cover note for further details.

The diagrammatic presentation of the structure of ethical and professional standards in the Appendix to this standard has been updated to reflect this change in structure.

## **Purpose**

- 1 The purpose of this Foreword is to describe the framework of the Standards and guidance relating to the acceptance and performance of engagements by members.

## **Authority**

- 2 The Fundamental Principles that apply to any engagement are contained in the Code of Ethics. Compliance with the Code of Ethics is mandatory for all members, irrespective of the nature of the engagement.
- 3 The Board<sup>1</sup> of the New Zealand Institute of Chartered Accountants (the Institute) issues Engagement Standards which expand upon the application of the Fundamental Principles to particular types of engagements. Paragraph 130.1(b) [NZ R113.1(b)] of the Code of Ethics requires that every member must comply with the requirements of the Engagement Standards.
- 4 Engagement Standards state mandatory requirements, basic principles and essential procedures that must be performed for the particular type of engagement to indicate competent professional practice. They also contain explanatory guidance used to improve knowledge and understanding of the scope and application of the requirements, basic principles and essential procedures.
- 5 Engagement Practice Statements and Guidelines are issued by the Professional Standards Board of the Institute. They are issued to provide interpretive guidance and practical assistance to members in implementing Engagement Standards. The Practice Statements and Guidelines contain material of a more specific nature than that contained in Engagement Standards and may not be applicable to every situation. They are therefore indicative of what may be required of members to meet the Engagement Standards.

## **Professional Judgement**

- 6 The nature of the Engagement Standards requires the member to exercise professional judgement in applying them.

## **The Nature of Engagements**

- 7 An engagement occurs when there is an agreement, whether written or otherwise, between a member and an engaging party relating to the provision of professional services by the member. In most cases, both the member and their firm are subject to the agreement.
- 8 An engagement is deemed to commence when the member or firm confirms the acceptance of the appointment.
- 9 Members offer a diverse range of professional services to their clients. A member conducting an engagement must apply any Engagement Standards that are relevant to the engagement. An Engagement Standard is relevant when the Standard is in effect and the circumstances addressed by the Standard exist.
- 10 The Engagement Standards deal with the general responsibilities of the member, as well as the member's further considerations relevant to the application of those responsibilities to specific topics. Engagement Standards contain mandatory sections and related guidance. They may also contain introductory material that provides context essential to a proper understanding of the Standard, and definitions. It is therefore necessary to consider the entire text of an Engagement Standard.
- 11 Some engagements may comprise more than one type of service. In such cases, the requirements for each type of engagement will need to be observed by the member, and this will need to be communicated to and understood by the engaging party.

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<sup>1</sup> Note that prior to June 2009, the Council of the Institute was responsible for the approval of Engagement Standards.

- 12 A diagrammatic presentation of the structure of ethical and professional standards is included in the Appendix. As indicated in this diagram, some engagements performed by members are classified as assurance engagements. In these engagements a member expresses a conclusion in the form of an opinion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

### **Assurance Engagements**

#### *International Standards on Auditing (New Zealand) (ISAs (NZ))*

- 13 An audit is designed to provide a high, but not absolute, level of assurance, expressed positively in the auditor's report as reasonable assurance, that the information subject to audit is free of material misstatement.
- 14 ISAs (NZ) are written in the context of an audit of financial statements<sup>2</sup> by an independent auditor. They are also to be applied, as appropriate, to all audits. The authority of ISAs (NZ) is set out in ISA (NZ) 200.<sup>3</sup>

#### *New Zealand Standard on Review Engagements (NZ SRE) and International Standard on Review Engagements (New Zealand) (ISRE (NZ))*

- 15 A review is a limited assurance engagement designed to provide a moderate level of assurance.
- 16 NZ SRE 2410 and ISRE (NZ) 2400 are written in the context of a review of historical financial statements and are to be applied, as appropriate, to reviews of other historical financial information.
- 17 The objective of a review engagement of financial information is to enable the reviewer to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the reviewer's attention to cause the reviewer to believe that the financial information does not present a true and fair view of the matters to which it relates. A review report helps lend some credibility to the financial information. The user, however, should be informed that an audit has not been performed.

#### *International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ)) and Standards on Assurance Engagements (SAEs)*

- 18 ISAEs (NZ) and SAEs are to be applied to assurance engagements other than audits or reviews of historical financial information. These engagements may provide either reasonable or limited assurance, depending on the nature of the engagement.

### **Non-Assurance Engagements**

- 19 These engagements typically require a member to use professional expertise to perform service or advisory functions on behalf of a client. For example, members commonly compile financial information from data submitted to them. They may also perform accounting or management functions on behalf of clients. In other cases, members may give expert advice to a client, for example management consulting engagements, business valuations performed by members and taxation advice given to clients.
- 20 In an engagement other than an assurance engagement, the member does not express an audit or review opinion.
- 21 When conducting non-assurance engagements, members are to apply the requirements, basic principles and essential procedures of any relevant Engagement Standard.

<sup>2</sup> Unless otherwise stated, "financial statements" means financial statements comprising historical financial information.

<sup>3</sup> ISA (NZ) 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)."

### Application of Engagement Standards

- 22 Engagement Standards contain either requirements (using the word “shall”) or basic principles and essential procedures (identified in bold type lettering and by the word “must”) together with related explanatory and other material, including appendices. The requirements or basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provides guidance for their application. It is therefore necessary to consider the entire text of a Standard to understand and apply the requirements or basic principles and essential procedures.
- 23 The requirements, basic principles and essential procedures of a Standard are to be applied in all cases where they are relevant to the circumstances of the engagement. In exceptional circumstances, however, a member may judge it necessary to depart from a relevant requirement or essential procedure in order to achieve the purpose of that procedure. When such a situation arises, the member is required to document how the alternative procedures performed achieve the purpose of the procedure, and, unless otherwise clear, the reasons for the departure. The need for the member to depart from a relevant requirement or essential procedure is expected to arise only when, in the specific circumstances of the engagement, that procedure would be ineffective.
- 24 Appendices, which form part of the application material, are an integral part of a Standard. The purpose and intended use of an appendix are explained in the body of the related Standard or within the title and introduction of the appendix itself.

### Standards and Principles of other Professional Bodies

- 25 When conducting certain types of engagements, members should be aware of standards or principles issued by other professional bodies. Examples of other professional bodies include, but are not limited to, INSOL International, the Association of Certified Fraud Examiners, Information Systems and Control Association, and the Institute of Internal Auditors. In the event that there are inconsistencies between these other standards or principles and those of the Institute, the member must comply with the Standards issued by the New Zealand Institute of Chartered Accountants.
- 25.1 The External Reporting Board (XRB) is an independent Crown Entity, established under section 22 of the Financial Reporting Act 1993 on 1 July 2011, and subject to the Crown Entities Act 2004. The XRB has delegated responsibility for developing and issuing auditing and assurance standards to the New Zealand Auditing and Assurance Standards Board (NZAuASB).
- 25.2 The NZAuASB’s legislative mandate is restricted to standards relating for use in assurance engagements required by statute. However, in September 2011 a pronouncement was approved by the Council of the Institute that made it a requirement for all members providing assurance services to adhere to the standards issued by the NZAuASB. [see also Important Note 2]

### Acceptance and Continuance of Engagements

- 26 Prior to accepting or continuing any engagement, members should ensure that they are able to meet the requirements of PS-1: *Quality Control* relating to Acceptance and Continuance of Client Relationships and Specific Engagements. These requirements are designed to ensure that members will be able to meet the Engagement Standards relevant to a new or continuing engagement and comply with relevant requirements in the Code of Ethics, for example requirements relating to Professional Competence and Due Care, and Objectivity. Further, members must ensure that they have complied with paragraphs 210.9—NZ210.14 [R320.4 – R320.8] of the Code of Ethics when superseding another member in public practice.

### Changes in Nature of Engagement

- 27 It is possible that the nature of an engagement may change, either in the principal function of the engagement or the intended distribution and use of the results of the engagement. Before

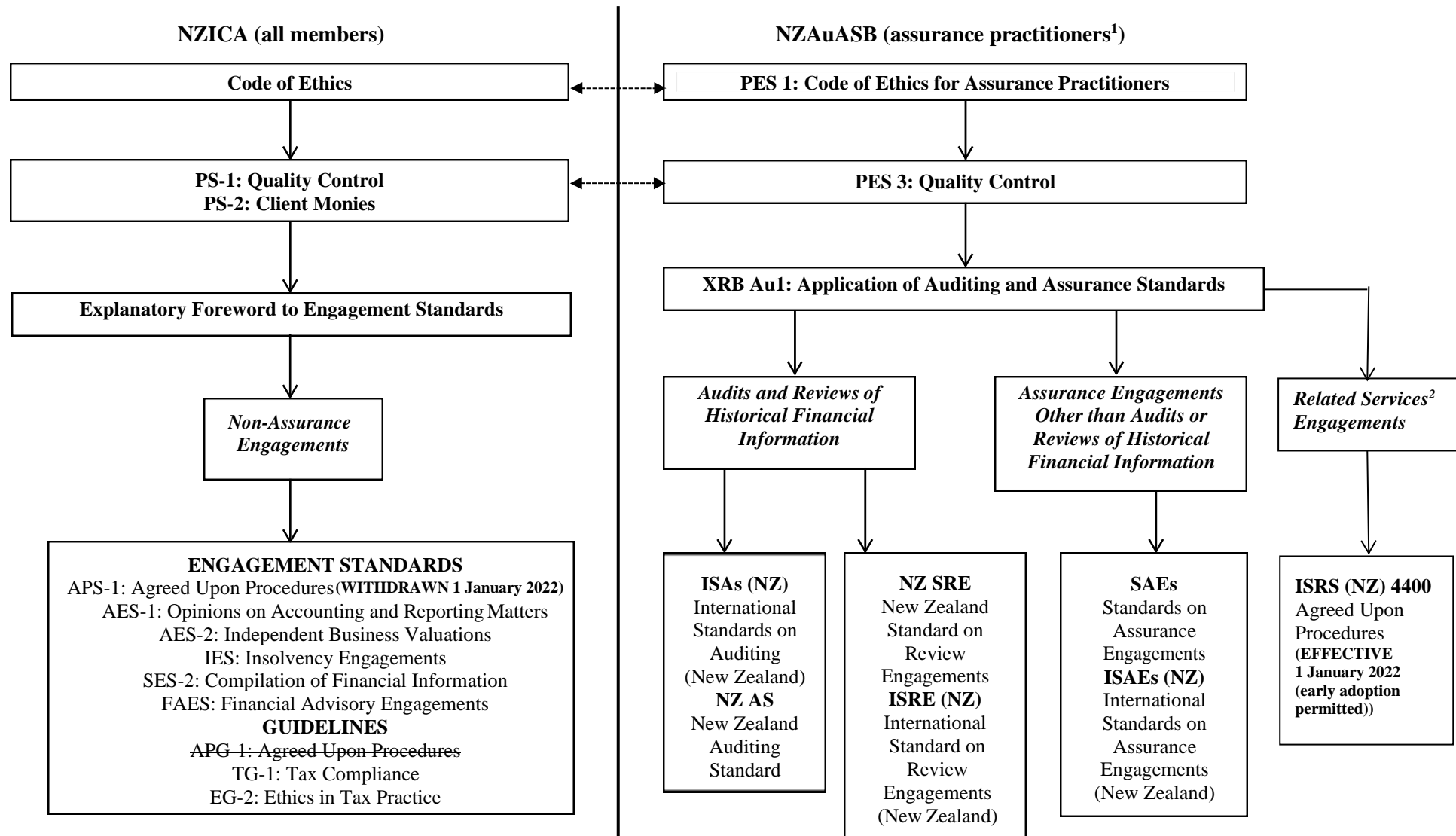
accepting a change in the nature of the engagement, the member should be aware of the consequences of the proposed change and any new requirements placed upon the member as a result of that change.

### **Association with Information**

- 28 Paragraph 110.2 [R111.2] of the Code of Ethics prohibits any member from making, preparing or certifying any statement which the member believes to be false, incorrect or misleading, or open to misconstruction, by reason of the misstatement, omission or suppression of a material fact or otherwise.
- 29 Members also have a wider responsibility to ensure that their name, or the name of their firm, is not associated with information without their consent.
- 30 A member becomes associated with information when a report using the member's name is attached to that information or the member's name is used in a manner which implies a professional association.
- 31 If a member learns that an entity is inappropriately using the member's name in association with information, the member should require the entity to cease doing so and consider what further steps should be taken. Such steps might include informing third party users of the inappropriate use of the member's name in connection with the information. The member may also believe it necessary to take other action, for example seeking legal advice.

## Appendix

### Ethical and Professional Standards



<sup>1</sup> 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.

<sup>2</sup> Services to perform agreed upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.