

ADOPTION OF INTERNATIONAL STANDARDS OF THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD IN NEW ZEALAND

*Issued by the Professional Practices Board
of the New Zealand Institute of Chartered Accountants¹*

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EXECUTIVE SUMMARY

The Professional Practices Board (PPB) recently completed its public consultation on the proposal to adopt the International Standards of the International Auditing and Assurance Standards Board (IAASB), including International Standards on Auditing (ISAs), in New Zealand.

The PPB has given extensive consideration to the responses received from that consultation. The majority of respondents clearly recognised the benefits of achieving international convergence with international standards that are widely accepted on a global basis. Most respondents accepted that a major benefit of convergence is the economic benefits that can be expected to flow from maintaining public confidence in the integrity and quality of audits and other assurance engagements performed by members of the accounting profession. Public confidence in audits and assurance engagements can be maximised through the application of national standards that reflect international best practice.

Taking account of all available information to reach its decisions concerning adoption of International Standards, the PPB has reached the decisions set out below.

1. The PPB will implement the proposal to achieve international convergence with the IAASB's International Standards in New Zealand by adopting the International Standards on Auditing (ISAs), the International Auditing Practice Statements (IAPs) and the International Standards on Quality Control (ISQCs) of the IAASB.
2. The PPB will adopt the IAASB's "*International Framework for Assurance Engagements*" (the International

¹ The New Zealand Institute of Chartered Accountants is the operating name of the Institute of Chartered Accountants of New Zealand, a body established under the Institute of Chartered Accountants of New Zealand Act 1996. All references to the New Zealand Institute of Chartered Accountants, or to the Institute, in this document mean the Institute of Chartered Accountants of New Zealand.

Framework), the International Standards on Assurance Engagements (ISAEs) and International Standards on Review Engagements (ISRSs), for the same purpose. Adoption of the ISAEs will ensure there are standards covering assurance engagements other than audits of historical financial information (which are covered by the ISAs).

3. The International Framework will be incorporated into a revised Professional Standards Framework for New Zealand.
4. The International Standards will be incorporated into new pronouncements to be issued in New Zealand. These will be referred to as International Standards on Auditing (New Zealand), International Auditing Practice Statements (New Zealand), International Standards on Review Engagements (New Zealand), and International Standards on Assurance Engagements (New Zealand). These Standards are collectively referred to in this document as 'New Zealand Equivalents to International Standards'.
5. International Standard on Quality Control 1 "*Quality Control for Firms that perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*" will be incorporated into a revised version of Professional Standard No. 1 "*Quality Control*".
6. The PPB's approach to the adoption of the International Standards is primarily guided by its policy aim for adopting those Standards, which is to enable members of the Institute to assert compliance with the International Standards in respect of their professional engagements undertaken in New Zealand.
7. The PPB will amend the International Standards to make them applicable in New Zealand as New Zealand Equivalents to International Standards by:
 - 7.1 modifying the International Standards by making additions, deletions or other amendments to the extent permitted by the IAASB's guidance for achieving international convergence with the International Standards; and
 - 7.2 retaining all requirements stated in the International Standards in New Zealand Equivalents to International Standards.
8. When modifying the International Standards the PPB will permit amendments to the extent these are not contrary to achieving the policy aim set out in paragraph 6 above.
9. As a consequence of implementing the approach outlined in paragraphs 7 and 8 above members will, in producing reports on professional engagements to which New Zealand Equivalents to International Standards apply, be required to state that they have complied with the New Zealand Equivalents to International Standards applicable to the engagement.
10. All modifications of the International Standards in New Zealand Equivalents to International Standards will be clearly identified in the New Zealand Equivalents to International Standards. All modifications and amendments will be subject to the PPB's due process.
11. Exposure Drafts of New Zealand Equivalents to International Standards will be developed and issued by the PPB

for public comment over 2006 and 2007. These Exposure Drafts will be submitted to the Institute's Council for approval as final standards during 2007, with a single proposed effective date of 1 January 2008.

1. INTRODUCTION

The Professional Practices Board is the national standard setting board of the Institute with responsibility for setting the Institute's Code of Ethics and its professional standards, including auditing standards. It is established under a Constitution approved by the Institute's Board.

The purpose of this Paper is to communicate the PPB's policy decisions concerning international convergence with the International Standards of the International Auditing and Assurance Standards Board (IAASB). The International Standards are:

- International Standards on Quality Control (ISQCs);
- International Standards on Auditing* (the ISAs) and International Auditing Practice Statements (the IAPCs);
- International Standards on Assurance Engagements* (ISAEs);
- International Standards on Review Engagements* (ISREs); and
- International Standards on Related Services (ISRSs).

* These Standards are referred to collectively as the IAASB's 'International Engagement Standards'.

This Paper was developed following due process that has involved extensive consultation with groups that have an interest in the quality of auditing and of the auditing standards that are applied in New Zealand. The consultation was based on information set out in the PPB's Consultation Paper "*Adoption of International Standards on Auditing in New Zealand*", released for public comment in June 2005.

This PPB's policy aim for international convergence with the International Standards is set out following a brief explanation below of the PPB's role and overall policy objectives. The due process the PPB followed for development of its policy decisions set out in this Paper is also explained.

This policy supersedes the PPB's policy regarding international harmonisation of Auditing Standards and Audit Guidance Statements issued in February 2002.

The PPB will review its policy in relation to international convergence from time to time, as changes take place in the legal, economic, institutional, or other dimensions of standard setting affecting the professional activities of the Institute's members, and the wider accountancy profession in New Zealand. The PPB will update this policy as necessary in light of those changes and developments.

2. BACKGROUND

The PPB serves a key role in achievement of the Institute's statutory functions in relation to regulation of the profession of accountancy in New Zealand by its members.

That purpose is recognised in the Institute of Chartered Accountants of New Zealand Act 1996. Section 5 of the Act states the following functions of the Institute:

(a) to promote quality, expertise, and integrity in the profession of accountancy by its members in New Zealand;

(b) to promote, control, and regulate the profession of accountancy by its members in New Zealand;

(c) to promote the training, education, and examination of persons practising, or intending to practise, the profession of accountancy in New Zealand or elsewhere;

(d) any other functions that are conferred on it by the rules.”

The Act requires the Institute to have a Code of Ethics governing the professional conduct of its members. The Institute’s Code of Ethics (the Code) contains a number of Fundamental Principles and Ethical Rules that apply to all members of the Institute.

The Institute issues Professional Standards which expand upon the application of the Fundamental Principles to the professional activities of its members. It also issues Professional Engagement Standards and Professional Engagement Guidelines applicable to professional engagements undertaken by its members, including standards applicable to audit engagements.

Taken together the Code, the Professional Standards and the Professional Engagement Standards form the Institute’s Professional Standards Framework. The current Professional Standards Framework is shown at Appendix 1.

The Auditing Standards are the majority in number of the Standards issued by the Institute.

The Code of Ethics and the above Standards that impose mandatory requirements on members are required to be approved by the Council of the Institute.

The PPB’s principal role is to develop the Code of Ethics and the other Institute pronouncements that comprise the Professional Standards Framework. In view of the public interest nature of many of the services provided by the Institute’s members to the public, the PPB’s Constitution explicitly recognises the importance of upholding the public interest in performing its standard setting role.

The Code of Ethics requires members to comply with the requirements of the Professional Standards, the Professional Engagement Standards and any other Standards or pronouncements which the Council may from time to time issue and declare to be mandatory (Rule 11: *Compliance with Technical and Professional Standards*).

3. OBJECTIVES OF THE PROFESSIONAL PRACTICES BOARD FOR ADOPTING INTERNATIONAL STANDARDS

Objective of the PPB

The PPB’s objective as a national standard setter is to uphold the public interest through setting high quality professional standards.

The PPB gives priority in its development, consideration and approval of standards, to upholding the public interest in New Zealand. The public interest is interpreted as meaning “*the collective well-being of the community of people and institutions the profession serves*”².

The PPB’s objective is aligned with that of the IAASB. The International Standards of the IAASB are developed through a rigorous and transparent international due process that is subject to international public oversight. These Standards represent widely accepted international best practice. The PPB believes that convergence with those Standards will further strengthen the financial reporting framework in New Zealand and contribute towards maintaining confidence in the accounting and auditing profession in New Zealand.

² Code of Ethics (June 2003), Paragraph 15.

Interpretation of 'the public interest'

In relation to auditing and assurance services, the public interest is of most significant concern in relation to audit and assurance engagements performed on subject matter (financial statements and/or other financial and non-financial information disclosures) that concerns entities that are publicly accountable. For example: issuers and listed entities; public sector entities; large charitable organisations. In these situations, the integrity and quality of audit and assurance engagements performed by members is of the utmost concern.

In contexts where investors depend on the credibility of the general purpose financial reports of particular types or classes of entities, the integrity and quality of audit services performed to enhance the credibility of financial and other information disclosures made to investors is important to preserve investor confidence in investment and capital markets.

In contexts where donors depend on the credibility of general purpose financial reports of public benefit entities, such as charitable organisations, the integrity and quality of audit and assurance services performed to enhance the credibility of information disclosed in those reports is important to preserve public confidence in reporting undertaken by public benefit entities and the socioeconomic sectors in which they operate, and/or to preserve their capacity to attract donor funding.

In organisations within the public sector, which are funded through monies derived from taxes or other compulsory levies on the public, the integrity and quality of audit and assurance services carried out to ensure proper accountability of public sector entities applying those public funds is important to preserve confidence in reporting undertaken by these entities, and in the wider public sector.

A key question is to what extent does the quality of auditing and auditing standards have economic effects in terms of producing net economic benefits, whether in the individual entity context, the context of their economic sector and/or in the national context?

Costs and benefits associated with auditing and assurance standards

Cost-benefit considerations need to be taken into account to ensure that the cost of the requirements imposed by auditing and assurance standards does not exceed expected future net benefits from compliance with those standards.

It is extremely difficult to reliably measure expected future benefits generated from the application of auditing standards in the contexts mentioned above. What is fairly apparent, however, are the damaging social and economic costs associated with poor quality auditing or audit failures. Whilst large-scale examples of poor quality auditing audit failures have not presented in New Zealand, they have occurred in recent as well as not so recent times in many other jurisdictions. These failures are typically followed by efforts to increase the quality of the auditing undertaken, including the quality of auditing standards applied.

So while it is true that the benefits of a successful implementation of high quality auditing standards are difficult to estimate reliably, the costs associated with large-scale audit failure are typically so damaging that avoidance of those costs is the preferable option. This is particularly the case where public accountability and public confidence is at stake.

A primary factor for consideration at the outset of any cost /benefit evaluation is the importance placed by relevant user groups on the degree of credibility that may be associated with any information disclosure, report or other form of subject matter. Where credibility is important, some form of external, independent professional assurance is needed to enhance the external credibility of the subject matter for user groups. The relative importance of the credibility of the content of any information disclosure, and particularly financial disclosures, will always have a significant influence on the evaluation of the perceived benefits of an audit, and therefore also on the evaluation of the net costs or benefits of having an audit.

In summary, a balance of considerations is needed to ensure that the cost of compliance with any mandatory audit requirement is warranted.

The next section explains the assurance obtained from an audit against that which is provided by alternative assurance engagements.

Level of assurance conveyed by audit and other assurance engagements

Audit-level assurance is expected to convey to users of the type of subject matter concerned, for example financial statements, high though not absolute assurance concerning some aspect of the subject matter. For example, an audit of the financial statements of a reporting entity (as defined in the Financial Reporting Act) is expected to convey to users high but not absolute assurance that those financial statements comply with Generally Accepted Accounting Practice in New Zealand, and give a true and fair view of the matters to which the financial statements relate.

In contrast with the preparation of financial information and financial reports, it is generally acknowledged within the profession worldwide that assurance conveyed to user groups from an audit engagement cannot be differentiated on the basis of the characteristics of entities for whom audits are undertaken (for example, on the basis of size characteristics, large or small; whether the entity operates for public or private benefit, whether or not the entity has listed securities).

Audit-level assurance also cannot be differentiated or 'customised' to reflect, for example, that the audit subject matter relates to an entity that has relatively low associated public interest. In these situations the more relevant question is whether or not the high level of assurance obtained from an audit engagement is needed or required by groups of users of the subject matter involved.

For any audit engagement the total audit costs typically reflect the nature and extent of audit work undertaken. However, regardless of factors such as the relative size and complexity of the entity whose reports or other subject matter are the subject of an audit, the objective of the audit is always to provide a high level of assurance concerning the audit subject matter. This objective is reflected in existing Auditing Standards in New Zealand, and also in the IAASB's ISAs.

The International Standards reflect the needs of a broad range of stakeholders associated with a range of entity types: public and private sector; large entities and small entities; for profit and not for profit entities. The International Standards on Review Engagements and on Other Assurance Engagements cater to the assurance needs of those classes of entities, or individual entities, for which the level of assurance obtained from an audit engagement is not

considered necessary, or is not otherwise required on a mandatory basis.

The international convergence objective

Many respondents to the PPB's consultation expressed the view that existing Auditing Standards in New Zealand are of high quality. It was also acknowledged by many respondents that it is important that the national auditing standards used in New Zealand be recognised and accepted as being of a high quality from an international perspective.

Translated in the context of the PPB's objective, stated above, this means maintaining high quality standards in a global environment. That is, national standards must not only be of high quality but also be seen to be of high quality on an internationally comparable basis.

There was general consensus that there is little advantage or benefit to New Zealand in continuing to maintain unique national auditing standards unless they reflect accepted international best practice. The International Standards issued by the IAASB are seen as reflecting widely accepted international best practice.

Over and above the level of support respondents expressed for international convergence in their feedback to the PPB, the PPB is also cognisant of the Institute's existing international convergence obligations as a consequence of membership of the International Federation of Accountants (IFAC).

IFAC requires its member bodies to *"use their best endeavours" to incorporate the International Standards and related Practice Statements issued by the IAASB into their national standards or related other pronouncements...*³

The meaning the IAASB attributes to 'incorporation' of the International Standards is that, in incorporating the International Standards in to national pronouncements, *"the incorporated requirements and guidance must carry the same intention (as to their meaning and effect) and authority as they do in the IAASB pronouncement. This condition requires that there is nothing in the way the requirements are incorporated into national standards that undermines their meaning and effect..."*

A professional accountant applying national pronouncements that incorporate the International Standards must be obliged to consider all the guidance from the International Standards as incorporated into national standards in order to understand the requirements of those Standards as incorporated.

From a consideration of respondents' feedback to the PPB together with the IAASB guidance on achieving convergence with the International Standards, the PPB has identified the policy aim for adopting International Auditing Standards and the other International Standards in New Zealand. That is to achieve international convergence with those Standards in the national standards applied in New Zealand. In relation to the International Standards on Auditing this aim extends to enabling professional accountants in New Zealand to assert compliance with International Standards in reporting on audit engagements.

The PPB's approach to adoption of the International Standards, set out in section 5 below, is determined by this policy aim.

³ IFAC places a similar obligation on its members in relation to its pronouncements on Ethics.

In the section that follows we briefly explain the international debates surrounding international convergence in financial reporting and auditing standards. These debates have shaped decisions on financial reporting and auditing standards to be applied in New Zealand, and are useful background for understanding why international convergence in Standards is considered important in the New Zealand context.

4. INTERNATIONAL CONVERGENCE IN FINANCIAL REPORTING AND AUDITING STANDARDS

A key aim of IFAC is to protect the public interest by continuing to strengthen the profession, particularly through the development of International Standards that establish global benchmarks for international best practice.

These Standards are fundamental to IFAC's aim of improving the credibility of financial reporting and auditing, and for maintaining public confidence in financial reporting and in the accounting profession.

Financial reporting systems supported by strong governance, high quality standards, and sound regulatory frameworks are key to national as well as global economic development. Indeed, high quality standards of financial reporting, auditing, and ethics underpin the trust that investors place in financial and non-financial information as a basis for economic decision-making. Accordingly the International Standards and investors' perceptions of those Standards are a key element of the international accountancy profession's contribution to worldwide economic development and financial stability. IFAC member bodies, including the Institute, also commit to achievement of these aims through acceptance of the IFAC member obligations.

Worldwide Support for International Convergence in Financial Reporting and Auditing Standards

IFAC is joined by international regulators, including the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Forum, the International Association of Insurance Supervisors, the International Organization of Securities Commissions, and the World Bank, in recognizing that global capital markets require high quality, globally consistent, and uniform regulatory and standards regimes.

The Financial Stability Forum (FSF) included the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (the IASB) and the ISAs issued by the IAASB in its *12 Key Standards for Sound Financial Systems*. The FSF indicated that these 12 Key Standards are most likely to make the greatest contribution to reducing vulnerabilities and strengthening the resilience of financial systems.

IFAC and International Convergence

A report issued in July 2003, *Rebuilding Public Confidence in Financial Reporting – An International Perspective*, provided evidence of worldwide support for the need to develop globally accepted standards. Developed by an independent Task Force commissioned by IFAC to address, from an international perspective, the loss of credibility in financial reporting in recent years and approaches to resolving the problem, this report recommended that IFAC and other international bodies work to achieve convergence of national and international standards, viewing this as a significant public interest issue.

IFAC has, as part of its effort to achieve international convergence through its member bodies, commenced a programme of monitoring its member bodies' compliance with their membership obligations. The IFAC compliance

monitoring programmes are intended to produce publicly available information concerning the levels of compliance achieved by member bodies in their national jurisdictions.

Challenges and Successes In Implementing International Standards: Achieving Convergence To IFRSs and ISAs

As part of its effort to promote international convergence, IFAC commissioned an international study to explore the challenges and successes involved in adopting and implementing international standards. The results of the study, published in 2004⁴, identified the challenges to adopting and implementing International Financial Reporting Standards (IFRSs) and International Standards on Auditing (ISAs). This report recommends actions to be taken by all those in the financial reporting supply chain to achieve convergence to international standards.

The report notes that, as the world continues to globalize, discussion of convergence of national and international standards has increased significantly and that most major capital markets are now actively discussing or pursuing efforts of convergence towards single sets of globally accepted accounting and auditing standards.

The report states the view that globally consistent and uniform financial systems provide cost-efficiencies to business and greater safeguards to the public, and that *“The public is entitled to have confidence that, regardless of where a business activity occurs, the same high quality standards were applied. It is widely recognised that investors will be more willing to diversify their investments across borders if they are able to rely on financial information based on a similar set of standards.”*

The following potential benefits of a global financial reporting framework are cited in the report, as examples:

- greater comparability of financial information for investors;
- greater willingness on the part of investors to invest across borders;
- lower cost of capital;
- more efficient allocation of resources; and
- higher economic growth.

However the report also notes that realisation of the above benefits is dependent on there being greater convergence to one set of globally accepted high quality standards. The report states that *“Achieving international convergence...requires reaching consensus as to the international standards that will serve as the foundation for financial reporting and auditing globally, determining how to facilitate the adoption of those standards, and, ultimately, taking the actions necessary to encourage implementation.”*

The premises underlying the promotion of the IFAC goal of achieving international convergence among its member bodies are the following:

⁴ *“Challenges and Successes In Implementing International Standards: Achieving Convergence To IFRSs and ISAs”* (referred to as “the Wong Report”, after the author)

- Successful adoption of the international standards is dependent on the development of high quality standards.
- Integrity in the application of the international standards is essential. Preparers, auditors, and users of financial statements must encourage and support compliance with the substance and form of the international standards.
- Adoption and implementation of the international standards requires action at both the national and international levels. At the national level, it is important that governments, regulators, and national standard setters place international convergence as a priority on their agendas. At the international level, it is important that the international standard setters establish processes and procedures that facilitate national input and lead to the development of high quality standards that are globally accepted.

Finally the report emphasises the point that to achieve international convergence, action is necessary at all points along the information supply chain that delivers financial reporting. Boards of directors and management, who have the primary responsibility for financial reporting, as well as auditors, standard setters, regulators, and other participants in the financial reporting process, such as lawyers, investment bankers, analysts, credit rating agencies, and educators, all have important roles to play in achieving international convergence.

5. The PPB's APPROACH TO ADOPTION OF INTERNATIONAL STANDARDS

Based on the responses and feedback received by the PPB on its public consultation on the proposal to adopt International Standards in New Zealand, the PPB reached the decisions set out below.

1. The PPB will implement the proposal to achieve international convergence with the IAASB's International Standards in New Zealand by adopting the International Standards on Auditing (ISAs), the International Auditing Practice Statements (IAPs) and International Standards on Quality Control (ISQCs) of the IAASB.
2. The PPB will adopt the IAASB's "*International Framework for Assurance Engagements*" (the International Framework), the International Standards on Assurance Engagements (ISAEs) and International Standards on Review Engagements (ISRSs), for the same purpose. Adoption of the ISAEs will ensure there are standards covering assurance engagements other than audits of historical financial information (which are covered by the ISAs).
3. The International Framework will be incorporated into a revised Professional Standards Framework for New Zealand.
4. The International Standards will be incorporated into new pronouncements to be issued in New Zealand. These will be referred to as International Standards on Auditing (New Zealand), International Auditing Practice Statements (New Zealand), International Standards on Quality Control (New Zealand), International Standards on Review Engagements (New Zealand), and International Standards on Assurance Engagements (New Zealand). (Collectively referred to in this document as 'New Zealand Equivalents to International Standards').

5. International Standard on Quality Control 1 *"Quality Control for Firms that perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements"* will be incorporated into a revised version of Professional Standard no. 1 *"Quality Control"*.
6. The PPB's approach to the adoption of the International Standards is primarily guided by its policy aim for adopting those Standards, which is to enable members of the Institute to assert compliance with the International Standards in respect of their professional engagements undertaken in New Zealand.
7. The PPB will amend the International Standards to make them applicable in New Zealand, as New Zealand Equivalents to International Standards, by:
 - 7.1 modifying the International Standards by making additions, deletions or other amendments to the extent permitted by the IAASB's guidance for achieving international convergence with the International Standards; and
 - 7.2 retaining all requirements stated in the International Standards in New Zealand Equivalents to International Standards.

Compliance with the requirements stated in International Standards, where they are relevant to an engagement, is an essential element to be able to assert compliance with International Standards as incorporated in New Zealand Equivalents to International Standards.
8. When modifying the International Standards the PPB will permit amendments only to the extent these are not contrary to achieving the policy aim set out in sub-paragraph 6 above.
9. As a consequence of implementing the approach outlined in paragraphs 7 and 8 above members will, in producing reports on professional engagements to which New Zealand Equivalents to International Standards apply, be required to state that they have complied with the New Zealand Equivalents to International Standards applicable to the engagement.
10. All modifications of the International Standards in New Zealand Equivalents to International Standards will be clearly identified in the New Zealand Equivalents to International Standards. All modifications and amendments will be subject to the PPB's due process.
11. Exposure Drafts of New Zealand Equivalents to International Standards will be developed and issued by the PPB for public comment over 2006 and 2007. These Exposure Drafts will be submitted to the Institute's Council for approval as final standards during 2007, with a single proposed effective date of 1 January 2008.

The PPB's approach to the modification of the IAASB's International Standards explained in paragraph 7 above will be guided by both of the following sources of guidance:

- A. The IAASB's current guidance on permitted modifications to IAASB Pronouncements for the purpose of achieving international convergence with IAASB pronouncements. This guidance states that:
 - (i) additions to an IAASB pronouncement should be limited to:

- a) national legal and regulatory requirements, and/or
- b) other requirements or guidance that are not inconsistent with the current requirements or guidance in the IAASB pronouncements,

and,

- (ii) deletions from, or other amendments to, an IAASB pronouncement should be limited to:
 - a) the elimination of options (alternatives) provided for in the IAASB pronouncements; and/or
 - b) requirements or guidance, the application of which law or regulation does not permit, or which require amendment to be consistent with law or regulation; and/or
 - c) requirements or guidance, where the IAASB pronouncement recognises that different practices may apply in different jurisdictions and the relevant standard setter is in such a jurisdiction.

In the case of (ii) b) and c) above however the objective of any deleted requirement as stated in the International Standard must still be met.

- B. In relation to adoption of the International Standards on Auditing, ISA 700(Revised) *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements* states the following (paragraph 62):

"The auditor's report should refer to the audit having been conducted in accordance with the International Standards on Auditing only when the auditor has complied with all of the International Standards on Auditing relevant to the audit."

6. APPLICABLE STANDARDS IN PERIODS PRIOR TO THE DATE INTERNATIONAL STANDARDS BECOME EFFECTIVE

Existing Standards on Quality Control (PS-1)

Members must continue to apply the existing Professional Standard No. 1 *Quality Control* until such time as the proposed PS-1 (Revised) *Quality Control*, incorporating the requirements of International Standard on Quality Control No. 1, is issued in final form and approved by Council.

Once proposed PS-1 (Revised) is issued and approved, members will be required to apply the revised Standard from the proposed effective date of 1 January 2007. This date is earlier than the proposed effective date for New Zealand Equivalents to International Standards on Auditing. This is being done intentionally, to allow members sufficient time to design and implement quality control systems that comply with the requirements of PS-1 (Revised) ahead of the effective date for implementation of the New Zealand Equivalents to International Standards on Auditing.

Existing Auditing Standards

Members must continue to apply the existing Codified Auditing Standards in New Zealand until such time as the New Zealand Equivalents to International Standards on Auditing are issued in final form and are approved by Council.

Once the International Standards on Auditing (New Zealand) incorporating the ISAs are issued and approved, members will be required to apply those Standards from the proposed effective date of 1 January 2008.

Existing Review Engagement Standards

Members must continue to apply the existing Review Engagement Standard in New Zealand until such time as the New Zealand Equivalents to International Standards on Review Engagements are issued in final form and are approved by Council.

Once the International Standards on Review Engagements (New Zealand) incorporating the ISREs are issued and approved, members will be required to apply those Standards from the proposed effective date of 1 January 2008.

7. EARLY ADOPTION OF INTERNATIONAL STANDARDS IN NEW ZEALAND

Early implementation of New Zealand Equivalents of International Standards ahead of the intended effective date will be encouraged. It is important to note, however, that the IAASB has stated that compliance with International Standards cannot be asserted unless all the requirements of the International Standards applicable to the engagement have been complied with in completing the engagement.