

## **New Zealand Auditing and Assurance Standards Board (NZAuASB)**

**Minutes of the Meeting of the NZAuASB held on Wednesday 7 June 2017 at the XRB Office, Manners Street, Wellington at 9.30 a.m**

<b>Present:</b>	Robert Buchanan, Chair John Kensington, Deputy Chair (until 4pm) Craig Fisher, Board member Clyde D'Souza, Board Member (until 4 pm) Pat Heslin, Board Member Chong Lim, Board Member Marje Russ, Board Member Roger Simnett, Board Member (until 2:30pm)
<b>Apologies:</b>	Rowena Sinclair, Board Member Karen Shires, Board Member
<b>Guests:</b>	Matthew Zappulla (AUASB Technical Director) (until 3:30 pm)
<b>In attendance:</b>	Warren Allen, Chief Executive Sylvia van Dyk, Director Assurance Standards Misha Pieters, Senior Project Manager Assurance Standards Sharon Walker, Senior Project Manager Assurance Standards Peyman Momenan, Project Manager Assurance Standards

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### **NON-PUBLIC SESSION – AGENDA ITEMS 1 – 2**

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- 1. WELCOME**
- 2. BOARD MANAGEMENT**

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### **PUBLIC SESSION – AGENDA ITEMS 3 – 11**

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The Board moved into public session.

## **3. SERVICE PERFORMANCE**

The Board NOTED with general approval the updated accounting standard and DISCUSSED the impact of the changes made on the project to develop an auditing standard.

The Board DISCUSSED, in the context of the auditing standard, the need for clear disclosure by the preparer of the service performance information regarding the basis for preparation. The entity will need to prepare the service performance information in accordance with the accounting standard but for audit purposes will also need to refer to its legislative mandate, its pre-established performance framework, its internal performance plan or something else to establish its basis for preparation of the service performance information. The Board REQUESTED staff to prepare a recommendation to provide to the NZASB, with any resulting changes to the auditing standard for consideration by circular resolution.

The Board CONSIDERED the issues paper and AGREED:

- The general approach previously developed remains appropriate;
- The auditing standard should continue to address the links between service performance information;
- The assertion of attribution is applicable;
- The draft standard appropriately covers the implications for collective reporting;

- The draft standard appropriately permits flexibility in reporting, while not requiring long form reporting. Some Board members had reservations about practitioners including recommendations in the auditor's report, however, all members agreed that allowing flexibility increases the auditor's "toolbox".

The Board DISCUSSED the definition of the entity's service performance criteria. The Board discussed the preference for the accounting standard and the auditing standard to "speak the same language" although also noted that "criteria" is a term used in the assurance standards. The Board AGREED to retain the term, but to look for ways to clarify what the term means in the draft standard.

The Board DISCUSSED the merits of having the assurance exposure draft in issue to overlap with the limited review exposure of the accounting standard. While the Board has identified matters to raise with the NZASB, the Board AGREED not to defer the issue of the auditing exposure draft if possible, pending discussions or resolutions with the NZASB.

The Board AGREED to approve the Exposure Draft out of session by way of circular resolution, subject to:

- Changes discussed to improve the clarity of the "entity's service performance criteria". These include: lifting the definition higher and including the idea of the "basis for preparation", bringing back the definition of "suitability of the service performance criteria", including examples of the basis of preparation in the application material, amending Appendix 2 to include the evaluation by the auditor;
- Linking the idea of adopting suitable service performance criteria to the basis of preparation in paragraphs that refer to the responsibilities of the entity, to link the accounting standard more closely to the auditing standard;
- Including reference to "available to intended users" in paragraph 12;
- Including in requirements with respect to the responsibilities of those charged with governance (for example paragraph 13) the need for disclosure of critical judgements, if applicable, linking the responsibility for the entity's service performance criteria to the basis for preparation, and ensuring consistently amended throughout;
- Ensuring consistently referring to "critical" judgements;
- Replacing "connection" with "correlates";
- In paragraph 58(a), including the qualitative characteristic noted in the comments in the wording of the standard and amending (ii)ii to flow on from the introductory wording;
- Amending "voluminous" to "extensive";
- Replacing references to "clean" with "unmodified";
- Modifying the Appendix 3 flowchart to reduce the focus on reporting to visually indicate that planning is a more significant focus for the engagement.

The Board AGREED to approve the draft ITC out of session by way of circular resolution, subject to:

- Including a question on how the accounting requirements and the assurance requirements fit together.

#### **4. ISA 540**

The Board CONSIDERED the questions raised in the explanatory memorandum to the IAASB's exposure draft of ISA 540 (Revised), *Auditing Accounting Estimates* (ED 540), and the feedback from roundtable discussions. The following observations were made, drawing off constituency comments to date:

- Many auditors are already auditing accounting estimates in the way proposed in ED 540, i.e., considering the factors of complexity, judgement by management and estimation uncertainty.
- The increased granularity and prescription of ED 540 may create a compliance mentality, ultimately reducing the level of professional scepticism and professional judgement employed by the auditor.
- ED 540 has been drafted with financial institutions in mind and is a very complex standard. Its application guidance assumes a level of preparer sophistication that many entities don't have. A two-standard approach may be more appropriate: one standard that deals with accounting estimates and a separate standard that deals with complex financial estimates.
- The concepts of "low risk" and "not low risk" are not defined and there is nothing in between low risk and not low risk. Extant ISA 540 refers to risk and significant risk, both well understood and defined terms.
- ED 540 does not address public sector concerns well, for example, where an estimate is not complex but the auditor is unable to assess as low risk due to estimation uncertainty, there is considerable work to be done. In the public sector, materiality is often expense rather than asset based but there are often huge amounts of infrastructure assets on the balance sheet. Using an expense based materiality may result in a significant work effort on a relatively low risk asset.
- ED 540 could turn out to be confrontational in its application, pitting the auditor against the client. Whereas extant ISA 540 allows the auditor to assess the methods, assumptions and data used by the client, ED 540 seems to require auditors to develop their own methods, assumptions and data and compare with those of management.
- Scalability in the ISAs generally refers to the scale of the entity, small, less complex, vs large entities. ED 540 addresses scale based on risk and work effort rather than entity size. There needs to be more effort and guidance for auditors of small, less complex entities.
- It is easy to get lost in the application material. It's not clear what the role of the appendices are.

The deadline for constituent comments is 1 July. A draft submission incorporating feedback from the Board's discussion, the round-tables held and constituent comments will be discussed at the July NZAuASB meeting.

## **5. IAASB NSS TOPICS**

The Board DISCUSSED the topics to be considered at the NSS meeting. In addition to the agenda topics already confirmed (including the New Zealand presentation on the service performance standard), the following suggestions were noted for inclusion in the New Zealand country report:

- A high level of interest and activity in the use of data analytics which is currently being undertaken;

- Results of the XRB research into the use of Alternative Performance Measures (APMs). The research would indicate that there is a demand for APMs to be assured, and that in many instances users often presume that these are assured;
- The need to again highlight that the Auditor's Report from the Office of the Auditor-General on the Financial Statements of the Government of New Zealand included Key Audit Matters.

## **6. IESBA STRATEGY CONSULTATION AND NSS TOPICS**

The Board DISCUSSED the draft response to the IESBA's Strategy Survey and provided input to the Chair and Director, Assurance Standards, on the matters to be discussed at the IESBA NSS meeting.

In relation to the Strategy Survey, the Board:

- Noted the comments from the XRAP discussion at its May meeting.
- Agreed with the ranking priority of the top six priorities, although requested that B13, The Meaning of Public Interest in the Global Context, be combined and ranked together with B3, Concepts of Public Interest Entity and Listed Entity.
- Provided further examples of ethical issues around trends and developments in technology and innovation and emerging or newer models of service delivery.
- Directed staff to finalise the submission subject to any further significant issues that may arise from the NSS meeting or constituent comment.

The Board DISCUSSED the agenda for the meeting and provided feedback for the break-out sessions at the IESBA NSS meeting on the topic of technology and workforce issues. The Board also made the following suggestions to raise in the New Zealand country report:

- The need for a neutral response on fee related matters. The NZAuASB has not expressed a view on the issues raised;
- The implementation of the revised long association provisions, noting that the APESB is also likely to identify supply issues and raise questions about the IESBA process.

## **7. RESEARCHING THE DEMAND FOR SIMPLE ASSURANCE**

The Board RECEIVED the findings on its research on the assurance needs of users of financial information of small entities in the not-for-profit (NFP) sector that are not required to have a statutory assurance engagement.

Results indicate that:

- The information needs of NFPs' stakeholders are only partially served by the general purpose financial report. Stakeholders also have a strong interest in information that is not measured or presented in financial terms, in particular information about operational capability (including governance and financial management) and the NFP's impact on its target communities.
- Many stakeholders already collect that type of information, and undertake activities to ensure its quality. Those spoken to also believe there would be high demand for

alternative types of assurance products, which the NZAuASB thought could range from use of simple checklists to independent assurance over non-financial information prepared under appropriate principles and standards.

The Board NOTED that this research would be of great interest to the AUASB, which is aware of similar issues in the NFP sector in Australia. The Board AGREED that the NZAuASB and the AUASB should jointly explore the viability of developing a new engagement standard and/or guidance to meet the NFP stakeholder needs.

The research report will be available on the XRB website soon.

**8. INTEGRITY OF APPLICATION OF ISAE (NZ) 3000**

The Board AGREED to defer discussion on this agenda item until the July meeting.

**9. GUIDANCE ON COMPLIANCE ENGAGEMENTS**

The Board NOTED an update on the project to develop guidance on Compliance Engagements.

**10. ENVIRONMENTAL UPDATE**

The Board NOTED the international, domestic and academic updates and AGREED to share these with the AUASB.

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**NON-PUBLIC SESSION – AGENDA ITEM 11**

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The Board moved out of public session.