

New Zealand Auditing and Assurance Standards Board (NZAuASB)

Minutes of the Meeting of the NZAuASB held on Wednesday 6 September 2017 at the XRB Office, Manners Street, Wellington at 9.15 a.m

- Present:** Robert Buchanan, Chair
Craig Fisher, Board member
Clyde D'Souza, Board Member
Chong Lim, Board Member
Ian Marshall, Board Member
Marje Russ, Board Member
Rowena Sinclair, Board Member
Karen Shires, Board Member (via video conference until 1:30pm)
- Apologies:** Roger Simnett, Board Member
John Kensington, Deputy Chair
- In attendance:** Matthew Zappulla (AUASB Technical Director) (until 3:30 pm)
Warren Allen, XRB 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
Channa Wijesinghe, Chief Executive Officer, APESB, by teleconference (for agenda 3)

NON-PUBLIC SESSION – AGENDA ITEMS 1 – 2

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

PUBLIC SESSION – AGENDA ITEMS 3 – 10 and Service Performance Information

The Board moved into public session.

3. Long Association

The Board NOTED the submissions received in response to ED NZAuASB 2017-1 *Proposed Amendments to PES 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client*.

The Board RECEIVED an update on the long association project in Australia from the Chief Executive Officer of the APESB, NOTING that there is a high level of consistency between the two jurisdictions in the definition of a public interest entity (PIE). In Australia, the definition of a PIE is also broader than listed entities and similarly covers banks, insurers and other deposit takers. Conceptually, large charities and public sector entities would be captured by the firms exercising their judgement as to which entities have a large number and wide variety of stakeholders.

The Board AGREED:

- To adopt the extended cooling off requirements for public interest entities in New Zealand with the same effective date as the revised IESBA requirements, noting that the Board is well aware of the supply challenges the revisions may create;
- To prepare an exposure draft proposing to amend the New Zealand definition of a Public Interest Entity (PIE) to exclude “voluntary PIEs”. The exposure draft should be for a short exposure period, given that feedback has already been received supporting such a change, and the exposure draft would seek confirmation as to the proposed wording changes. These changes should also be agreed with the NZASB. The invitation to comment is to be approved by circular resolution and the XRB Board should be notified of the proposals;
- To retain the New Zealand definition of a PIE in all other respects, i.e. include all FMC reporting entities considered to have a higher level of public accountability, large public sector entities and large not-for-profit entities;
- To arrange a meeting with the FMA to discuss possible exemptions that may assist to reduce supply pressures. This discussion should cover what is desirable and what is possible (under the international Code), i.e., whether such an approach would result in exemptions for the auditors or exemption from the designation as an FMC reporting entity considered to have a higher level of public accountability. There may be merit in exploring the latter in certain circumstances, for example, within the forestry sector. The Board indicated a preference not to follow an approach of exempting smaller audit firms, as this could have a negative impact on audit quality where smaller firms are exposed to risky issues. The purpose of exploring exemptions will be to determine whether there is a principled approach that could address the concerns raised in submissions received regarding the negative impact the revisions may have on audit quality.
- To work with the NZX and the APESB to develop guidance or an FAQ to address examples of dual listed entities;
- To potentially defer the extended cooling off period for other assurance engagements (as this is a New Zealand change). The Board requested that further consideration be brought to the October meeting.

4. Strategic Action Plan 2017/22

The Board APPROVED the NZAuASB Strategic Action Plan for 1 July 2017 to 30 June 2022 and the NZAuASB Strategic Action Implementation Plan for 2017/18, subject to the following amendments:

- Including a new Action 3.3 Supporting Lyn Provost in her role as IAASB member.
- Changing Action 1B.8 Developing guidance on the use of the Compliance Standard to Consider developing guidance on the use of the Compliance standard after performing a post implementation review.
- Including as a planned action under Action 1A.3 (f) to have a 6 monthly phone catch up with the Canadian Ethical Standard Setters Board Chair.
- Including to attend the Mid-Tier forum as a planned action under Action 4.2(b).
- Including to promote the results of the joint report with the FMA on auditor reporting as a planned action.

- Including the working relationship with APESB within the planned actions where appropriate.

5. Auditor Reporting Report with FMA

The Board CONSIDERED the overview of feedback received so far and an initial analysis of the data by the FMA. The Board noted:

- that the feedback from analysts may have been obtained too soon, and possibly a second phone call may be needed to seek further comment subsequent to the June reporting season;
- the difference in approach adopted by the various firms in reporting key audit matters (KAMs) should be a focus to help the market understand what they are receiving;
- some typos and edits in the draft report.

The Board provided feedback on the data reviewed so far, raising queries about which entities have been included (e.g., whether entities with listed debt have been included). The Board NOTED that the report should also refer to the KAM report issued on the whole of government, the first of its kind internationally.

The Board REQUESTED staff to develop a plan to launch and promote awareness of the report that is to be published. This should target the Institute of Directors, with the possibility of a breakfast launch discussed.

6. Guidance on SAE 3100 (Revised)

The Board RECEIVED an update on the project to develop guidance on the use of SAE 3100 (Revised), *Assurance Engagements on Compliance*. The Board NOTED that the main reason for investigating a need for guidance on SAE 3100 was feedback received from one constituent, with an emphasis on materiality. The Board NOTED that SAE 3100 was initially issued in 2011 and that the Board has not received any requests from assurance practitioners for guidance to date. The Board DISCUSSED if there is an immediate need for a guidance for the revised standard considering the recent update. The Board AGREED to revisit the need for developing guidance on SAE 3100 (Revised) after feedback is available from practitioners on implementing the revised standard.

7. PES 1 (Revised) Restructure

The Board RECEIVED an update on the status of the IESBA Structure project and DISCUSSED the proposed New Zealand changes to the IESBA close off documents.

The Board DIRECTED staff to consider the existing compelling reason changes to Professional and Ethical Standard 1 (Revised) and to challenge whether those compelling reason changes continue to be appropriate. A paper will be presented to the Board for consideration at its October meeting.

8. Integrity of ISAE (NZ) 3000

The Board DISCUSSED the results of the research on non-accountants' application of ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The Board NOTED that the findings are in line with its expectations. The Board NOTED the suggestion from Marje Russ that there may be a need in future for a body to formally evaluate ethical and quality control requirements followed by non-accountant assurance practitioners, to determine whether they are at least as demanding as PES1 and PES 3 requirements.

The Board AGREED with the recommendation included in the research report.

9. Modified auditor reports update

The Board NOTED the modified auditor reports received from auditors in July 2015 to July 2017 in accordance with the Companies Act 1993 and the 1993 and the Financial Markets Conduct Act 2013, which had been reviewed in accordance with the XRB policy. The Board AGREED that none of the opinions indicated a significant issue for the NZAuASB's standards. The Board further NOTED that a significant number of the modified opinions were in relation to fair value measurement of forest assets of small forestry companies. The Board AGREED with the CE's suggestion that it is worthwhile to mention this finding in the Board's future interactions with the FMA.

10. Environmental Scanning

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

Service Performance Information

This item was brought to the Board following a meeting of the joint NZAuASB/NZASB subcommittee on 5 September to discuss outstanding matters relating to the two standards on performance information.

The Board NOTED the concerns raised by some NZASB members related to:

- Use of the ISAE 3000 series as the base for developing an auditing exposure draft;
- An opinion that does not opine only on whether the service performance information fairly presents, in accordance with the accounting standard (like the opinion on the financial statements) but includes a reference to the entity's service performance criteria.

The Board AGREED that in order to consider the concerns raised it would include additional questions in the invitation to comment (ITC), i.e. whether:

- the definition of service performance criteria is appropriate; and
- there is a need to explicitly opine on the suitability of the entity's service performance criteria in the audit report. The ITC is to illustrate an alternative approach, similar to the approach taken in EG Au9, and include questions to better understand whether such an approach is preferred and what is likely to be more useful to the users of the audit report.

The Board AGREED that it is important that the context (i.e. identification of the entity's service performance criteria) is included in the auditor's report. However, if there are concerns that the opinion may be confusing this could be addressed in the section on the responsibilities of those charged with governance. The Board AGREED to amend the exposure draft in this way. This together with the additional questions added in the ITC will explore various options in order to solicit further feedback during the exposure draft period.

The Board asked that staff circulate the amended ED and ITC to the Board for approval by circular resolution, and that the Chair of the NZASB be kept informed of developments.

NON-PUBLIC SESSION – AGENDA ITEM 11

The Board moved out of public session.