

New Zealand Auditing and Assurance Standards Board (NZAuASB)

Minutes of the Meeting of the NZAuASB held on Wednesday 25 October 2017 at the XRB Office, Manners Street, Wellington at 9.15 am

Present:	Robert Buchanan, Chair John Kensington, Deputy Chair (from 10:15 am) Clyde D'Souza, Board Member Chong Lim, Board Member (until 4 pm) Ian Marshall, Board Member (from 9:45 am) Marje Russ, Board Member Karen Shires, Board Member Roger Simnett, Board Member (via teleconference until 3:15 pm) Rowena Sinclair, Board Member
Apologies:	Craig Fisher, Board member
In attendance:	Anne Waters (AUASB Senior project manager) Warren Allen, XRB Chief Executive Misha Pieters, Senior Project Manager Assurance Standards Sharon Walker, Senior Project Manager Assurance Standards Peyman Momenan, Project Manager Assurance Standards

NON-PUBLIC SESSION – AGENDA ITEMS 1 – 2

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

PUBLIC SESSION – AGENDA ITEMS 3 – 12

The Board moved into public session.

3. Service Performance consultation plan

The Board NOTED the draft agenda for the planned roundtable discussions and received an update on registrations. The Board suggested reaching out to the CAANZ not-for-profit SIG group in Christchurch when they meet on the 8th of November.

4. Long association

The Board CONSIDERED the remaining issues in the issues paper and AGREED:

- To continue to align the requirements for audits and other assurance engagements in the long association provisions. However, the Board AGREED to add a high priority project to reconsider whether the compelling reasons test continues to be met for all of these changes.
- To remove paragraph 290.163, the paragraph dealing with the position where a shorter cooling-off period is established by law or regulation in New Zealand. This will achieve consistency for all New Zealand entities, and provide certainty. The Board requested staff meet with the FMA, the NZX and APESB staff to update them of this approach prior to finalising the changes.

The Board APPROVED the amendments to PES 1 (Revised), subject to removing paragraph 290.163 and subsequent changes to the effective date.

The Board APPROVED the signing memorandum subject to changes to reflect the changes made to remove the possibility of a shorter cooling off period and update the discussion on exemptions with the FMA. The Board also requested that the signing memorandum include further detail on the amendments to the public interest entity (PIE) definition to remove voluntary PIEs. The Board AGREED that the Chair would AGREE the final wording changes prior to issue.

The Board APPROVED the Explanation for decisions made subject to updating the document for the decision to remove paragraph 290.163. The Board requested further changes to:

- Emphasise in paragraph 8 that the NZAuASB, in conjunction with the APESB, did raise concerns related to audit quality matters with the IESBA in the exposure period;
- Clarify that the international revisions “may” add to supply pressures.

The Board APPROVED the additional frequently asked questions, subject to adding a footnote related to paragraph 290.163 to explain why removed in New Zealand and AGREED to develop further FAQs in conjunction with the APESB to remove uncertainty for dual listed entities.

The Board expressed their appreciation to staff for their efforts in finalising the amendments.

5. PIE definition

The Board APPROVED the Invitation to Comment and Exposure Draft subject to some editorial changes to clarify that the changes to the long association requirements have impacted on the compelling reason test, and to remove references to being a standard taker, rather to clarify that the NZAuASB adopts the international standards.

6. Structure of the Code

The Board CONSIDERED the compelling reason amendments previously made to Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners*. The Board CONFIRMED the compelling reason amendments made to PES 1 (Revised), excluding those relating to other assurance engagements, are still appropriate.

PES 1 (Revised) applies to all those who perform assurance engagements, even if they are not part of the accountancy profession. The provisions of PES 1 (Revised) pertaining to other assurance engagements apply equally to assurance over financial and non-financial information. Concerns have been raised that in extending the provisions for audit and review engagements to other assurance engagements the Board may have inadvertently placed more onerous requirements on a practitioner in New Zealand than necessary to meet the intent of the IESBA Code.

The Board AGREED to establish a Subcommittee, consisting of Rowena Sinclair, Marje Russ, Ian Marshall and Clyde D’Souza, to reconsider the existing compelling reason changes relating to other assurance engagements included throughout PES 1 (Revised).

7. Auditor reporting Report with FMA

The Board CONSIDERED a draft of the joint report with the FMA that explores the New Zealand experience in implementing the first round of the new auditor’s report, for listed issuers, containing key audit matters.

The Board PROVIDED feedback on the draft report and REQUESTED amendments to:

- Clarify that the objective of the report is a stocktake of the experience to date and throughout the report make it clear whose voice is coming through – i.e., reflect the views we have heard in a factual manner.
- Structure the report as follows:
 - An executive summary upfront, including key messages for all groups, the practitioner, the directors and preparers and users and other market participants. This can include the conclusion that there is a need for further work to address the expectation gap.
 - A clearer section on what we heard during the interviews clarifying whose voice is coming through.
 - Clarification of the requirements of the standard and what KAMs are and what KAMs are not.
 - Reconsider the position of the first impressions and reorder feedback with the directors and preparers first and the users last
- Focus less on the need for auditor judgement, with more focus on the audit effort.
- Include more detail on what we heard on the cost of the KAM requirements on the firms.
- Keep the detail of the number of KAMs by industry but move the detail into an appendix. Include a disclaimer over the classification of KAMs.
- Include fewer quotes from the auditor's reports, and remove names (more generically to illustrate example 1).
- Move the section on other enhancements to an appendix.
- Amend section titles.
- Focus less on the public sector in the introductory section.
- Refer to closure statements rather than mini-findings.
- Provide more global context on how New Zealand compares on the voluntary reporting of materiality, audit scope and closure statements.
- Clarify concerns for the second wave of implementation.
- Ensure that the colours in the report are consistent to avoid confusion.

The Board NOTED the feedback obtained from the Shareholders' Association as part of the consultation process for the development of the report, which included a number of responses indicating the ongoing existence of an audit expectation gap in New Zealand. The survey suggested that some stakeholders do not understand the responsibilities of the auditor or give any credence to the auditor's work. It was noted that this had similarities to the experience in

other jurisdictions where it took a few years for the changes to become embedded. The Board considered ways to integrate this feedback into the report however AGREED that the objective of the report is to provide a stocktake of the New Zealand experience of key audit matters (KAMs), not necessarily to address the expectation gap directly.

The Board CONSIDERED whether two reports should be prepared – one longer, more technical version and another shorter, more educative piece targeted to the layman. The Board AGREED to first concentrate on the full stocktake report and once this is finalised, to determine other ways to leverage off the work done to target specific audiences, including FAQs or a summary form report. One Board member suggested a short article to be prepared for the INFINZ journal.

The Board AGREED to provide fatal flaw comments on the report, once amended, in order that the report can be finalised by the end of November.

8. Auditor reporting FAQs

The Board APPROVED the publication in New Zealand of additional FAQs prepared and published by the AUASB, except the question on the remuneration report as this is not relevant for New Zealand.

The Board REQUESTED minor edits to the draft, specifically requesting that the first sentence in the response answer the question.

The Board also RECEIVED an update on a bulletin issued by the AUASB related to Responding to Questions at AGMs on KAMs. The Board AGREED that this should be circulated to the Board and considered for application in New Zealand in due course.

9. Examination of Prospective Financial Information

The Board APPROVED the project proposal to develop a New Zealand standard on the examination of prospective financial information. The Board AGREED to:

- Use ASAE 3450, *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, as a base.
- Establish a reference group to assist with the development of an issues paper to be considered at the February 2018 meeting.
- Establish a subcommittee, the members of which will be determined at a future meeting.

The AUASB has offered the support of a staff member to provide guidance on this project.

10. IESBA ED Requirements prohibiting improper inducements

The Board CONSIDERED the IESBA Exposure Draft, *Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements*, and the related conforming amendments to the independence provisions relating to gifts and hospitality.

The Board recognised that due to their multi-jurisdictional and multi-service based nature, the IESBA provisions are quite complex. The Board expressed general support for the proposals and provided some editorial suggestions on the draft submission.

The Board tentatively APPROVED the submission subject to the requested changes being made and the consideration of constituent feedback. Final approval of the submission was delegated to the Chair.

11. Guidance for prescribers

The Board CONSIDERED the second draft of the guidance for prescribers of assurance engagements. The Board APPROVED the guidance subject to the following modifications:

- Expand the introduction section to explain why an assurance engagement may be appropriate and what the other alternatives to assurance engagements in accordance with the NZAuASB standards are.
- Add guidance to explain that review engagements are also likely to be quicker to complete and entail a different set of procedures and tests compared to an audit engagement.
- In Appendix 1, example 3, modify the wording to clarify that using the term verify implies a level of confidence that assurance engagements cannot provide.
- In Appendix 2, replace the term “allowed” with “permitted”.

The Board expressed their appreciation to staff for their efforts in finalising the guidance.

12. Environmental Scanning

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

NON-PUBLIC SESSION – AGENDA ITEM 13

The Board moved out of public session.