

New Zealand Auditing and Assurance Standards Board (NZAuASB)

Minutes of the Meeting of the NZAuASB held on Wednesday 25 July 2018 at the XRB Office, Manners Street, Wellington at 9.15 am

Present:	Robert Buchanan, Chair John Kensington, Deputy Chair Clyde D'Souza, Board Member Craig Fisher, Board member Chong Lim, Board Member Marje Russ, Board Member Roger Simnett, Board Member Karen Shires, Board Member (absent for part of agenda item 4) Rowena Sinclair, Board Member -
In attendance:	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 Lyn Provost (agenda item 4)
Apologies	Ian Marshall, Board Member
Observers	Nicola Hankinson (agenda item 3 and 4) Nikki Morrison (agenda item 3 and 4)

NON-PUBLIC SESSION – AGENDA ITEMS 1-2

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

PUBLIC SESSION – AGENDA ITEMS 3 – 11

The Board moved into public session.

3. The Audit of Service Performance Information

The Board CONSIDERED the Issues Paper and AGREED:

- To amend paragraph 34 related to risk assessment to refer to “reasonable possibility of material misstatement”.
- To add definitions to distinguish “present” from “disclose”.
- To replace references to “preparers’ bias” with “management bias” as this is a defined term in the ISAs.
- To delete the Illustration 5 in the final appendix.

The Board APPROVED the amended draft of the exposure draft subject to the amendments noted in the issues paper and REQUESTED further amendments as follows:

- To reorder paragraph 11 to reflect a better logic flow.
- To replace the reference to “consistent with the financial statements” to “together with” pervasively throughout the amended draft.
- To amend references to influencing decisions taken on the basis of to “based on”.
- To add a cross reference from paragraph 21(e) to paragraph A22 and expand the application material to explain that where performance measures are developed in consultation with intended users, the evaluation of the suitability of the measures may require less work.
- To reword paragraph A35 as there are many “for examples” in this paragraph.
- Amend paragraph A50(e) to refer to legislation.

The Board APPROVED the table of concordance, feedback statement and explanations for decisions made documentation subject to the following amendments:

- Creating two sub-sections to distinguish critical matters to other matters considered.
- Adding a reference to the NZASB in paragraph 3.
- Expanding the footnote reference to the IAASB project on Emerging Forms of External Reporting.
- Clarifying that the XRB is not responsible for determining when an entity is required to have an audit.
- Simplifying the reason why performance materiality has been deleted.
- Moving paragraph 57 below the heading “Response by the NZAuASB”.

The Board AGREED to issue the amended draft standard for a limited scope fatal flaw review with a consultation period closing on 1st October 2018, seeking feedback only where stakeholders consider the amended draft standard would be unworkable in practice or may result in unintended consequences.

4. Update from Lyn Provost on IAASB projects

The Board welcomed Lyn Provost to the meeting and RECEIVED an update on the recent IAASB projects covered in the report to the Board, highlighting that:

- ED ISA 315 has been issued and ISA 540 approved together with conforming amendments between ISA 315 and 540.
- The focus of the IAASB is now on the quality control standards. ISQC1, a new ISQC2 and ISA 220 are now priority projects. The target is to approve exposure drafts of these standards in December 2018.
- The group audits project is currently delayed due to lack of resources.
- The Chair of the professional scepticism working group is unable to continue due to illness, and Lyn is likely to take over as Chair. The most important matter is to determine where professional scepticism is particularly important. Trying to link professional scepticism to the public interest more carefully is also vital. The International Accounting Education Standards Board (IAESB) has published two interesting papers on professional scepticism on conscious and unconscious bias. A newsletter on professional scepticism is being developed with the first issue to be released shortly.

- The Data Analytics (DA) project's focus is to better understand how DA can affect the audit profession. There have been efforts to prepare some white papers to further the discussion on this topic.
- The objective of the EER taskforce is to develop guidance for practitioners that is practical to implement. One of the big issues is the number of frameworks that need to be considered. Accommodating framework-neutral guidance has been challenging.
- A new project is being developed in relation to engagements where someone other than the engagement partner signs the audit report. This resulted from a difference of view between Lyn and other members of the ISA 220 taskforce about the significance of the issue. The PIOB representative supported Lyn's view for something to be done in this space. Preliminary research indicates that the issue is quite widespread: for example, Hong Kong has clear instructions for what a signing partner needs to do in circumstances where they are not the engagement partner, which may provide a way forward to address the concerns raised.
- Looking to the future, some of the challenges the IAASB faces are:
 - The Monitoring Group review outcome. The issues are not consistent in any manner or form.
 - The current chair of the IAASB retires in December and there will be a new chair to the IAASB.
 - Prioritising of different actions and projects.
 - To remain relevant standard setting needs to occur in a more timely manner.
 - Timely coordination with the IESBA on matters of mutual interest.

Lyn was asked if she sees a change in the IAASB process and how projects are progressed. She noted there has been progress in this area. In particular, the relationship between the three Boards (IESBA, IAASB and IAESB) has improved.

There was discussion of the process for releasing ED 315, the EER roundtables, the proposed project on audit evidence (which will pick up on work initiated by the AICPA), and the process for obtaining New Zealand and Australian input to her work. She indicated she is highly appreciative of the inputs from the technical working group.

The Chair thanked Lyn for attending the meeting.

5. Revised and Restructured Code of Ethics

The Board CONSIDERED the New Zealand changes to the *International Code of Ethics for Professional Accountants, including International Independence Standards*. The Board:

- Questioned the application of some of the material in the Code to assurance practitioners as a subset of professional accountants in public practice. For example, some of the examples in Section 310, *Conflicts of Interest*, are directed more toward practitioners in public practice, rather than the more specific "assurance practitioners" which is the mandate of the NZAuASB. The Board AGREED to retain the wording of the IESBA Code at this time.
- Agreed to add the long association transitional date to the effective date paragraph.
- Agreed to retain the grey shading in the Exposure Draft to highlight the changes arising through the safeguards project.

- Suggested minor editorial changes to the Exposure Draft.
- Suggested some changes to the wording of questions 2 and 3 and various other minor wording changes in the Invitation to Comment.

The Board RESOLVED to issue the Invitation to Comment and Exposure Draft of PES 1, subject to the requested changes, with a 90-day comment period. Agenda items 5.5 and 5.6 will also be made available on the XRB website to assist with reviewers' consideration of the draft Code.

The Board thanked the subcommittee and staff for their efforts.

6. IESBA Consultation Paper Professional Scepticism

The Board CONSIDERED the draft submission prepared by staff on the IESBA's consultation paper on professional scepticism, noting the following:

Overall, the Board supports the IESBA's:

- vision for the Code to enable all professional accountants to act in the public interest by not associating with misleading information; and
- initiative to understand what specific actions can be undertaken to help all professional accountants to understand this expectation, and how to enhance their behaviours and efforts in meeting the expectation.

The Board does not support "professional scepticism" being introduced into the Code as a "catch all" term for all professional accountants. Adopting this approach might dilute or otherwise adversely affect the understanding and application of professional scepticism in the context of audit and other assurance engagements, and therefore be detrimental to the public interest.

The Board believes that the Code's existing fundamental principles provide an appropriate foundation for the expected professional behaviour of all professional accountants and strongly supports having an overarching statement of purpose for all professional accountants in the Code, for example, to be professional, by acting in the public interest and complying with the fundamental principles.

The Board REQUESTED staff to amend the draft as follows:

- To emphasise in the covering letter the option of having an overarching statement of purpose for all professional accountants in the Code.
- To remove or elaborate on the term 'cautious mindset', noting that professional accountants should be balanced and unbiased.
- To remove the suggestion to liaise with the IESBA to replace 'professional scepticism' with 'auditor scepticism' in the auditing standards should the IESBA decide to use professional scepticism in the Code.
- Not to over emphasise the linkage of work effort to professional scepticism.

The Board REQUESTED staff to distribute the updated draft to members via email for their review and further comment.

7. Strategic Planning - XRB

The Board NOTED and provided FEEDBACK on the summary XRB strategic plan. The CE noted the following to the Board.

- The strategic plan is not yet finalised. It is due for approval in the XRB meeting in August 2018.
- In response to the Board's question whether the XRB is aware of the reporting initiatives by the new government, specifically within the XRB's focus on EER, the CE commented that the XRB is following the Treasury's work on well-being and standard of living very closely and with interest. The CE explained to the Board that the XRB expects to interact with the Treasury on this topic as part of Specific Strategy 4: Enhance Constituency Engagement and Support.
- In response to a question about whether the XRB's strategic plan should include mention of working more closely with the FRC and the AASB and AUASB in Australia, the CE commented that the XRB is already working closely with its Australian counterparts and that this is not by nature a specific strategy item, but a matter included under Specific Strategy 1.
- The CE noted the Board's feedback that Specific Strategy 2 should specifically refer to the academic community as well as already mentioned think tanks and labs.
- In response to feedback from the Board that maintaining and enhancing relationships with standard setters of similarly minded countries (discussed as part of Specific Strategy 3) should not only be a contingency but a business as usual matter, the CE explained that XRB members had raised a similar point and that this paragraph will be amended to reflect this feedback.
- In response to a question whether the strategic risk section of the strategic plan should specifically include the risk of the current international standard setting climate in light of the Monitoring Group activities and the risk of a move away from internationally set standards, the CE acknowledged the significance of the risk and noted that this is part of the XRB's ongoing risk evaluation and assessment.

8. Strategic Action Plan.

The Board CONSIDERED the proposed changes to the 2018/2023 SAP. The following matters were raised:

- Rowena Sinclair asked whether there is a need to review the compelling reason test process, and also whether the fatal flaw due process requires further deliberation. The Board discussed the question, noting that the NZAuASB is primarily a standard-taker that adopts standards issued by the IAASB and the IESBA and that the compelling reason test process has been functioning well for both the AUASB and NZAuASB. It was also considered that the fatal flaw review is likely to be applicable to domestically developed standards and not to the internationally adopted standards. However, the Board AGREED to include discussion of the compelling reason test as an item for a future meeting. It was further noted that this needs to be done in liaison with the AUASB, as both boards use the same agreed compelling reason test and process.
- The Board AGREED a specific action to collaborate with the AUASB on the AUASB's project on Audit Quality in Australia should be added to the SAP.
- The Board AGREED to include an action to monitor activities and developments in the wider assurance standard-setting space.
- Roger Simnett advised that the AUASB plans to review the implementation of ISAE 3100, Compliance Engagements within the next 12 months. The Board REQUESTED that the NZ review of the compliance engagement be performed as a coordinated and joint project with the AUASB.

- The Board REQUESTED strategic action plan 4.7 to remain on the SAP.
- The Board CONFIRMED that developing a review standard for service performance review engagements should remain as a strategic priority as it is a mandatory obligation, regardless of whether such engagements may be undertaken infrequently.

9. ISA 315 Compelling Reason Test

The Board CONSIDERED the ISA 315 ED and the related issues paper. The Board AGREED that there are no compelling reasons to alter any requirements included in the proposed ISA 315 (Revised) for exposure in New Zealand. The Board also APPROVED the proposed timetable for issuing the ED in New Zealand.

10. Modified audit opinions

The Board NOTED the modified auditors' reports update. The Board also NOTED that the XRB has only received four modified auditor reports since January 2018, indicating the possibility that there are some modified audit reports that are not sent to the XRB. The CE informed the Board about an XRB initiative to liaise with the Companies Office and the FMA to develop a single portal for auditors to send their modified audit reports, which may help resolve this issue.

11. Environmental Scanning

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

NON-PUBLIC SESSION – AGENDA ITEM 12

The Board moved out of public session.