

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

**Minutes of the Meeting of the NZAuASB held on Wednesday 5 September 2018 at the Heritage Hotel, 35 Hobson Street, Auckland at 9.20 am**

<b>Present:</b>	Robert Buchanan, Chair John Kensington, Deputy Chair Clyde D'Souza, Board Member (until 3:30pm) Craig Fisher, Board member (until 4:40pm) Chong Lim, Board Member Ian Marshall, Board Member Marje Russ, Board Member Roger Simnett, Board Member (until 4:40 pm) Karen Shires, Board Member Rowena Sinclair, Board Member -
<b>In attendance:</b>	Warren Allen, XRB Chief Executive (until lunch) Sylvia van Dyk, Director Assurance Standards Misha Pieters, Senior Project Manager Assurance Standards Peyman Momenan, Project Manager Assurance Standards  For agenda item 4  Nigel de Frere (Staples Rodway) Graeme Edwards (KPMG) Jon Freeman (PwC) Peter Gulliver (Deloitte) Mark Hucklesby (Grant Thornton) Paul Lawrence (Crowe Horwath) Chris Neves (BDO) Scott Tobin (Audit New Zealand) Simon O'Connor (EY) – for agenda item 4
<b>Apologies</b>	

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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. Strategic Action Plan 2018/2023**

The Board CONSIDERED the NZAuASB 2018-21 Draft Strategic Plan and requested the following amendments:

- To add a focus for developing relationships with academia and other “think tanks”, to proactively provide feedback on user needs research that will help inform standard setting. For example, flag a need for research to inform planned post implementation reviews and explore ways to best engage, for example, by presenting seminars at the universities about the audit environment or inviting a group of auditing academia

(lecturers and researches) to a future board meeting. This could be added under strategy 2.1 and 4.

#### **4. Meet with Practitioners on Audit Issues**

The Board welcomed practitioners from the audit firms to the meeting to discuss emerging issues and matters to do with the auditing and assurance standards. The following matters were raised:

- The increasing role of regulators in standard setting. In New Zealand, due to our size, there may be opportunities for the profession to meet with the regulator to facilitate a better understanding of where possible issues lie (to address the perception that there are no “gold star” audits in New Zealand).
- An ongoing need to keep global international auditing standards. It would be naïve to consider that New Zealand could continue to operate a principle-based approach to standard setting if the rest of the world moves to a more rules-based approach. The firms’ methodologies are developed on an international basis and it will be problematic if domestic standards are not aligned.
- Possible areas where there are differing expectations between practitioners and regulators as to how to apply the auditing standards include:
  - Materiality, including quantitative and qualitative factors
  - Documentation and a drive to “over” document. This is tending to fall back on the client too, and the client resents the additional work. In addition, the audit is now more focussed internally on the “audit file” rather than on the client.
- Technology advancement and whether the standards remain fit for purpose. Examples of emerging areas identified include:
  - Digital currencies and the demand for assurance, even though there is no accounting standard
  - ETS and carbon credits
- The increasing length and complexity of the standards increases a demand for a SME/SMP focus, however practitioners cautioned against developing two sets of standards (i.e. against having one set for complex engagements and another for less complex engagements). The introduction of multiple standards in the accounting standards has not been seen to add much value and there is still support for the idea that “an audit is an audit”. The notion of an audit should not be tampered with, instead a different type of engagement may be a more viable option.
- Measures of audit quality and the focus on the quality review rating scale need to capture a sense of proportionality (for example 68% failure – while these audits may have had failings the audit did not fail). The sample the reviews are drawn from is also skewed and does not take into account the economic cycle.
- The market no longer values the audit product and there is a need to address value perception. (No measure of what would happen if the audit function was not there). The acceptance of lower fees however is something that auditors have brought upon themselves.
- Clients have not moved with the accounting standards. The need to report on the entity’s control environment (as required by the PCAOB) is something to consider.

The Chair thanked those who attended for the valuable insights shared and noted that the Board looks forward to holding annual meetings with the practitioner stakeholder group going forward.

## **5. IAASB ED on ISA 315 (Revised)**

The Board CONSIDERED the exposure draft of ISA 315 and provided initial views on themes to raise in developing a NZAuASB submission in response:

- In terms of meeting the projects objectives, in many ways these have been achieved except for scalability. The complexity of the standard was also questioned. The approach of starting small and then expanding for more complex does not seem to have been applied.
- The length of the application material is a key issue. It would be useful to identify application material that could be condensed or removed (for example, justification for a requirement could be moved to the basis for conclusions rather than included in the standard).
- Support for making a clear distinction between inherent risk and control risk.
- Whether the Spectrum of risk concept will really change anything, i.e. what more or less will the auditor do. It was highlighted that the spectrum of inherent risk is not defined.
- Concern that the ED implies that an “off the shelf package” means that the auditor does not have to do any work. The auditor may still need to consider how much modification has been made or take a service organisation approach.
- The idea of magnitude OR likelihood seems to be interpreted differently. The Board suggested adding examples as to how this is meant to be interpreted. However, the Board recognises that auditors who ignore matters of low likelihood do so at their own peril.
- Caution against adding a proliferation of stand back provisions throughout the ISAs and consideration of how the auditor would document how they have met the stand back.

## **6. ISA 540**

The Board NOTED the approved version of ISA 540 (Revised) awaiting approval from the Public Interest Oversight Board and tentatively AGREED that there are no compelling reason amendments when adopting ISA 540 in New Zealand. The Board AGREED to approve the New Zealand standard at its October meeting.

## **7. Small NFPs Engagement Project**

The NZAuASB CONSIDERED the results of the research to decide whether a new simple assurance engagement standard or product should be developed for small charities.

The Board AGREED to establish a working group consisting of three Board members and staff to explore this further, potentially as an alternative engagement to an audit or review of financial statements for small not-for-profit entities.

The working group will report its recommendations to the Board at its December meeting. An important consideration is whether an alternative engagement can be of an assurance nature and hence within the existing mandate of the Board.

## **8. Examination of Prospective Information Standard**

The Board CONSIDERED and AGREED the ongoing need for the development of the domestic standard. The Board APPROVED the revised timeline for planned finalisation of the standard from December 2018 to October 2019 and AGREED to work with the AUASB as the project develops.

**9. NZ SRE 2410**

The Board AGREED to prepare an exposure draft to amend NZ SRE 2410 to incorporate:

- The revised auditor reporting requirements (excluding key audit matters) for reviews performed by the auditor (for example interim reviews).
- Conforming amendments as a result of the NOCLAR changes to the Code of Ethics and other assurance standards.

The Board DISCUSSED the best way to deal with amending domestic standards for other changes to the international standards. For editorial type amendments the Board AGREED to incorporate an annual conforming amendments approach, noting that if more urgent changes are identified these should be accelerated. The NZAuASB's due process should be amended to reflect this approach.

**10. Environmental Scanning**

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.