

New Zealand Auditing and Assurance Standards Board (NZAuASB)

Minutes of the Meeting of the NZAuASB held on Wednesday 10 April 2019 at the XRB offices, 55 Manners Street, Wellington

Present: Robert Buchanan, Chair
John Kensington, Deputy Chair (via Teleconference)
Clyde D'Souza, Board Member (until 4:30pm)
Craig Fisher, Board member
Chong Lim, Board Member
Ian Marshall, Board Member (until 4:30pm)
Marje Russ, Board Member
Roger Simnett, Board Member (until 2:10pm)
Karen Shires, Board Member (except 1:15pm – 1:30pm)
Rowena Sinclair, Board Member -

Apologies None

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 (for agenda item 4)
Kimberley Crook (via teleconference for agenda item 7)
Anthony Heffernan (for agenda item 7)
Marina Michaelides (for agenda item 5)

Observers: Nicola Hankinson (Staples Rodway)
Nikki Morrison (Grant Thornton)

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. IAASB's Quality Management Exposure Drafts

The Board DISCUSSED possible compelling reason changes for development of a New Zealand exposure draft and AGREED:

- To amend the requirement for an engagement quality review (EQR) from 'listed entity' to 'FMC reporting entity considered to have a higher level of public accountability' and leave it up to the firms to determine other entities of significant public interest. The Board discussed that requiring an EQR for all public interest entities as defined in PES 1 would be extending the requirements beyond what was intended by the IAASB's proposals. The Board REQUESTED that staff develop additional New Zealand application material to clarify this in the New Zealand context.

- To further consider all possible options to amend the reference to Part 2 of the IESBA Code of Ethics and to consult with CAANZ and CPA Australia.
- Support for the initial analysis of whether or not to retain the existing New Zealand specific paragraphs from extant PES 3.

The Board DISCUSSED the proposals in ED ISQM 2 related to a cooling off period for listed entities where an engagement partner moves from being the engagement partner to performing the EQR. The Board is opposed to the inclusion of material related to application of the threats and safeguards described in the Code of Ethics and would encourage the IAASB to leave this to the IESBA to deal with, noting that these cooling off requirements cannot be considered in isolation of the existing IESBA requirements. The Board disagreed with this approach in principle and questioned the evidence to suggest that this is actually a problem in practice, noting that:

- The incoming engagement partner brings their own fresh set of eyes to the engagement, and the EQR role is to challenge the engagement partner.
- If the incoming engagement partner is raising new issues that the EQR reviewer does not agree with based on their previous role, the firms have policies in place to resolve such disputes.
- The EQR reviewer will reassess prior held decisions based on current information and therefore it is not appropriate to consider that the EQR reviewer would be led by prior assessments.
- The threat to independence in appearance may not be relevant as the client should not have contact with, and often will not know who the EQR reviewer is. It was noted that in the public-sector there is more transparency around the EQR and that the perceived threat may be higher in those instances.

The Board NOTED there seems to be a trade-off between quality (linked to limited supply of capability to complete the EQR) and a perceived risk to independence. These proposals seem to be at the expense of audit quality for a small jurisdiction like New Zealand, and would likely result in less competent, less experienced people being required to perform the EQR.

The Board NOTED that because of the level of involvement of the EQR reviewer going forward, it may no longer be appropriate to see the EQR reviewer as separate from the engagement team.

In the New Zealand context, the Board DISCUSSED how the reference to listed entities should be amended if the IAASB retains these proposals. Given the concern related to sacrificing audit quality, the Board considered retaining the reference to listed entities in this instance, which would require the introduction of a definition of “listed entity”. This is based on the expected increase in the numbers of EQRs that would be affected if this reference was extended to all public interest entities or to FMC reporting entities considered to have a higher level of public accountability.

The Board AGREED to defer the development of a New Zealand exposure draft to a later stage, with the option of a short exposure period once the IAASB finalises the standard if the changes needed relate only to terminology changes and clarification of the mandate and scope of the NZAuASB standard. Staff were asked to reflect on whether any further changes may be needed and then determine the most appropriate time to develop the New Zealand exposure draft.

The Board NOTED its support for the proposed risk-based approach to quality management and considers that this aligns with other well-established frameworks, for example ISO 9000.

4. Meet with Lyn Provost

The Board welcomed Lyn Provost to the meeting.

The Board NOTED the IAASB March 2019 meeting report and the audit reference group feedback on the IAASB March 2019 meeting papers.

Lyn provided the Board with a self review assessment of her performance against the objectives she set for herself when taking on the IAASB role.

Lyn expressed her thanks to the Board for the support received from both the NZAuASB and the technical reference group. She acknowledged the Board's concerns over the length and complexity of the standards.

The Board thanked Lyn for attending the meeting.

5. EER Consultation Paper

The Board NOTED the IAASB's Consultation Paper *Extended External Reporting (EER) Assurance* and DISCUSSED the following matters to raise in developing a New Zealand submission:

- Recognition that the draft is likely to develop into a very lengthy document, which may be a barrier to meeting its objectives.
- The draft appears to be trying to cover too many things. By repeating parts of ISAE 3000 (Revised) it could be seen as a "one stop shop" for practitioners rather than guidance on top of ISAE 3000 (Revised). While the importance of ISAE 3000 (Revised) as the standard has been agreed to, there appears to be a lot of justification for this approach in the draft. Once this decision has been made, it may not be useful to justify this approach in the guidance.
- The draft tries to capture a broad spectrum of practitioners, as well as the preparer. It may be useful to have separate more targeted pieces for each audience, to try to reduce the length and density or alternatively make it clearer which voice is coming through, i.e., those on the journey or new to this area, versus those who have a good understanding of and more experience in assurance and EER and are looking for practical guidance in specific areas.
- It could be seen to imply that these are expected to be recurring engagements although that may not be a valid assumption (i.e. assurance readiness assumes that there will be an assurance engagement in future).
- It could be seen to imply that meeting the preconditions may get easier over time, which again may not be a valid assumption as each year new matters may arise that changes the subject matter.
- The need to clarify how much is enough when determining whether the preconditions have been met.
- For phase 2 to capture a more flexible way of reporting, not just a binary yes or no opinion.
- Concern that the focus on internal control is going beyond ISAE 3000. This does not recognise that a purely substantive audit approach may still enable the practitioner to obtain the necessary evidence.

- Some mixed views on the guidance on assertions, but overall consideration that this may give rise to some useful examples and assist to help practitioners apply professional scepticism. The guidance may be appropriate for EER, as it is a narrower subject matter than ISAE 3000. However, there was acknowledgment that the subject matter is still very broad, so mixed views on whether the assertions can be sufficiently broad to cover all of the frameworks (i.e. how to remain framework neutral).
- One board member was concerned around use of the term “materiality process” and suggested that it may be clearer to describe this as the process the preparer applied to determine what to include in the report – i.e. what is the subject matter
- Consider whether “materiality factors” would be useful to include in the performance materiality chapter.
- Consider ways to reinforce the iterative nature of many of these evaluations throughout the draft and suggest inclusion of a flowchart similar to NZ AS 1.

6. LCE Consultation Paper

Roger Simnett presented the draft IAASB Consultation Paper, *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*, to the Board.

The Consultation Paper is the foundation paper for the IAASB LCE (formerly SMP) conference being held in Paris in May 2019.

The Board expressed its support for the paper, noting it was well written and an easy read. The following suggestions/observations were made:

- It would be helpful to link the questions to the appropriate sections to aid electronic navigation.
- Clarification of what it means to be out of scope would be helpful.
- Proposed ISA 315 (Revised), *Identifying and Assessing the Risk of Material Misstatement*, is based on the COSO¹ framework. The assumption that entities follow the COSO framework may not be particularly relevant in Australia/New Zealand.

The Board will consider an outreach plan at the June 2019 meeting.

7. Update from the NZASB

The Board welcomed Kimberley Crook, NZASB Chair, and Anthony Heffernan, Director Accounting Standards to the meeting.

Kimberley presented the Board with an overview of current NZASB activities.

The Board thanked Kimberley and Anthony for their attendance and the informative presentation.

8. NSS Meeting

No agenda papers have, as yet, been received for the IESBA or IAASB NSS meetings.

The Board CONSIDERED the most likely topics to be raised at the NSS meetings. The Board observed the following on the IESBA proposals presented in agenda item 8.2:

¹ Committee of Sponsoring Organisations of the Treadway Commission

- Non Assurance Services (NAS):
 - Blacklisting of certain services and the withdrawal of materiality as a “qualifier” in prohibitions for specific types of services removes professional judgement.
 - There is a perception that lack of independence and fees from NAS drive poor performance. This is not necessarily the case.
- Fees:
 - The quoted fee is a commercial decision by the firm, not a resource decision and does not impact on the firm’s ability to perform the engagement in accordance with professional standards.
 - The proposals appear to be arbitrary rather than evidence based.

9. IAASB Future Strategy and Work Plan

The Board CONSIDERED the IAASB’s Consultation Paper, *Proposed Strategy for 2020-2023 and Work Plan for 2020-2021* along with the draft submission thereon.

The Board REQUESTED the following observations to be included in the submission:

- Extend Connectivity and Collaboration Opportunities:
 - Accounting practice is evolving –transactions are becoming more complex and financial changes require more estimates and management judgements. Audit quality is affected by the quality of accounting standards. Collaboration and communication with the IASB need to be a key area of focus.
 - Coordination with IESBA to be continued so that IAASB and IESBA standards are consistent and capable of consistent application.
- Encourage the IAASB to make use of National Standard Setters and other resources, recognising the heavy workload of the strategy and work plan, along with the limited resources available.
- Audit evidence: the scope of the project needs to include a technology focus.
- Amend the response to question 2 to balance the response with the need to develop standards that enhance audit quality and audit inspections but remain principles based, cautioning against undermining principles-based standards with too much application.
- In the overall comments, include comments on improving audit quality and the need for collaboration with the IESBA.

A revised draft, incorporating public responses, will be circulated to the Board for final approval.

10. Environmental Scanning

The Board NOTED the international, domestic and academic updates.

NON-PUBLIC SESSION – AGENDA ITEM 11

The Board moved out of public session.