

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

### Minutes of the Meeting of the NZAuASB held on Wednesday 5 June 2019 at the XRB offices, 55 Manners Street, Wellington

<b>Present:</b>	Robert Buchanan, Chair John Kensington, Deputy Chair Clyde D'Souza, Board member Craig Fisher, Board member Ian Marshall, Board member Marje Russ, Board member Roger Simnett, Board member (until 3pm) Karen Shires, Board member Rowena Sinclair, Board member
<b>Apologies:</b>	Chong Lim, Board member
<b>Guests:</b>	Rob Everett, Financial Markets Authority (for agenda item 4)
<b>In attendance:</b>	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
<b>Observers:</b>	Zowie Pateman (CAANZ) (for agenda item 3)

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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. **IAASB's Quality Management Exposure Drafts**

The Board DISCUSSED the draft submissions and suggested the following amendments:

#### ED ISQM 1

General comments

- Acknowledge that the proposals will impose large resourcing requirements for large firms as well as SMPs;
- The IAASB needs to explain the benefit of the new standard and its objective. The IAASB should also ensure clarity about how regulators will interpret requirements, ensuring a focus on process (e.g. the risk assessment process) rather than outcomes (e.g. hindsight judgements formed on specific risks). This adds further weight to the need to lift the objectives to a higher level and address documentation requirements.
- The suggestion that SMPs could use independent peer reviews will be impracticable in New Zealand, given the high risk and insurance implications.

- Transition will be onerous, involving a significant mindset change in quality management even though risk-based approaches are inherent in managing any business. 18 months will be a challenging implementation period for such a large exercise.
- The bar is set too low for risk and response, and it needs to be clearer where along the curve a response is required.

#### Question 1

- Amend 'understand' to 'has been advised'
- Reference to both ISO 9000 and ISO 3100 supporting alignment with similar frameworks
- Amend 'accept' to 'embrace'
- Clarify what more we are expecting
- Clarify what is meant by the 'thinking checklist' i.e. not a checklist but something to consider to assist implementation as relevant to the firms circumstances
- 'Could substantively' -emphasize need for cost benefit and that the proposals will come at a cost for the big 4 too. Cost benefit needs to be articulated at the top end too.
- 'in addition' implies not already happening
- Restructure will 'only'...
- Reword communicates, compliance with regulator, remove for regulators benefit

#### Question 2

- Less granular will help.

#### Question 5

- Be more explicit on public interest and link objective of the system for the public interest not the regulator's benefit.
- Process focus not outcome focus supports quality in the public interest.
- Cost v benefit analysis is also needed in the public interest.

#### Question 6

- Add need guidance for both firms and regulators.

#### Question 7

- Delete and may not be relevant.
- Need for review or not review SMP Good job.

#### Question 8

- Mixed responsibility, individual for firm and own .
- Example of client acceptance, network has to identify if complies or not, or service organisation report over them?
- Network cohesion.

#### Question 12

- At the larger end.

- Need to get independent report back and then review if RA. Difficult for smaller firm, how do it?

Service provider

- Example clearer, is excel covered? Clearly in or clearly out.

Appendix

Requirements for Information & Communication is too prescriptive

ED ISQM 2

- Remove the third paragraph of the covering letter
- The Board questioned the need for the second paragraph in the response to question 2.

ED ISA 220

- Redraft the response to question 7 so that the overarching statement comes first.

The submission period to the NZAuASB closes on June 7<sup>th</sup>. The Board was asked to forward any editorial improvements to staff. Based on any additional feedback received and the feedback from the Board, staff will mark up amended drafts for approval out of session.

#### **4. Meet with Rob Everett**

The Board welcomed Rob Everett, Chief Executive of the FMA to the meeting. The discussion covered the role of audit in capital markets and the expectations of audit, as well as the results of the FMA's recent research on the perceptions of audit quality in New Zealand.

The Chair thanked Rob for attending the meeting.

#### **5. NSS Meeting update**

The Chair reported back on the national standard setters meetings and LCE conference attended by the Chair and Director and thanked the CE and the XRB Board for the opportunity to attend. The Board noted the written update with thanks for the comprehensive nature of the report.

#### **6. Strategic Implementation Review**

The Board will consider the strategic action plan at the July 2019 meeting.

#### **7. EER Consultation Paper**

The Board NOTED a submission received from the Institute of Directors and APPROVED a New Zealand response to the IAASB's Consultation Paper *Extended External Reporting* subject to:

- Clarifying whether the paragraph references refer to the draft guidance or the explanatory memorandum, and confirming the reference to paragraph 107 and addressing editorial corrections;
- Referencing the XRB and McGuinness Institute research (which had been referred to in the IoD submission);
- In response to the challenge of preconditions and the system of internal control, changing 'may be a restrictive way' to 'may be too early a constraint' and to emphasize

that given the immature nature of many EER frameworks and the broad nature of the subject matter, the assurance framework takes you back to first principles, to consider what we are reporting about before working to assure the information. This also highlights the need for long form reporting in this space (e.g. while the information may be relevant and timely it may not be comparable, etc). In addition, reiterating the need for the evaluation of the suitability of the criteria and the internal controls is an iterative process not limited to a precondition for the engagement.

- In response to question 3, recommending:
  - That at the end of Phase 2, the IAASB should stand back on completion of the draft to confirm the most appropriate structure for the guidance, once all the topics have been considered.
  - The inclusion of a flowchart at the start of the guidance to emphasize the iterative nature of many of the evaluations.
  - Recognising that there are many players (including users, preparers, regulators and assurance practitioners) in the eco-system of EER but clarifying the scope and purpose of the guidance as primarily for practitioners. There is a need for material for others in the ecosystem but that these may be best located in separate companion documents. Separating material for others in the ecosystem may also assist to streamline the guidance.
  
- In response to question 5 re-emphasizing that preparers are on a journey and the assurance practitioner should be aiming at providing as much assurance as possible to emphasize the need to move away from a binary opinion.

#### **8. IESBA ED: Revisions to Part 4B of the Code**

The Board CONSIDERED and APPROVED the submission.

#### **9. NZ SRE 2410**

The Board CONSIDERED the amendments the AUASB made to the exposure draft approved by the NZAuASB in February, noting the AUASB has now issued its exposure draft. Roger Simnett highlighted the need to align the New Zealand and Australian interim review reports as far as possible, given that some entities are dual listed.

The Board DISCUSSED the amended report on going concern agreed by the AUASB and REQUESTED staff to consider merging that amendment with the last two sentences of the disclosures required by ISA 700 (Revised) and amend the ITC accordingly.

The Board agreed to amend the New Zealand exposure draft with the additional changes made by the AUASB. The Board REQUESTED staff to include a cross reference to illustrative reports in the ISAs (NZ) to assist practitioners if the illustrative example is to be removed from NZ SRE 2410.

#### **10. Environmental Scanning**

The Board NOTED the international, domestic and academic updates.

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### **NON-PUBLIC SESSION – AGENDA ITEM 11**

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The Board moved out of public session.