

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

**Minutes of the Meeting of the NZAuASB held on Wednesday 24 July 2019 at the XRB offices, 55 Manners Street, Wellington**

<b>Present:</b>	Robert Buchanan, Chair John Kensington, Deputy Chair Craig Fisher, Board member David Hay, Board member Chong Lim, Board member Ian Marshall, Board member Karen Shires, Board member (until 4pm) Roger Simnett, Board member (until 3pm)
<b>Apologies:</b>	Clyde D'Souza, Board member Marje Russ, Board member
<b>Guests:</b>	Anthony Heffernan, Director Accounting Standards (for agenda 9) Gali Slyuzberg, Project Manager (for agenda 9)
<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>	Nicola Hankinson (Staples Rodway) (for agenda items 3 and 6) Nikki Morrison (Grant Thornton) (for agenda items 3 and 6)

---

**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 Less Complex Entities Discussion Paper**

The Board DISCUSSED the IAASB's discussion paper Audits of Less Complex Entities: *Exploring Possible Options to Address the Challenges in Applying the ISAs*. The Board considered and approved the outreach plan to receive feedback from stakeholders and discussed preliminary draft responses on the matters raised in the paper.

The Board discussed the working definition of an LCE proposed by the paper, which draws on the current ISA definition of a "smaller entity". Aside from that, the Board's preliminary views are:

- If a separate standard is developed for LCEs, regulated entities in the capital markets should be excluded from the definition of an LCE as it is unlikely that regulators would support that.

- A key point of difference in the audit of an LCE is that it is often more difficult to obtain sufficient and appropriate evidence due to the lack of systems and controls in place. The IAASB has recently commenced a project to revise the evidence standard where it could be considered.

The Board discussed the three possible potential actions noted in the paper, which are:

- A. Reviewing the ISAs;
- B. Developing a separate auditing standard for audits of LCEs; and
- C. Developing guidance for auditors of LCEs or other related matters.

Following an informal straw poll of Board members and staff, option B is the most preferred option at this stage, with some board members favouring option A. The Board noted this is consistent with the polling in the IAASB's English-language webinar presentation on the paper, which saw Option B slightly preferred, but this contrasts with the polling of delegates at the LCE conference in Paris in May. There seems little appetite internationally for issuing more guidance (Option C)).

The Board will consider feedback received from the outreach conducted and approve its submission to the IAASB at its September meeting

#### **4. Impact of mandate on NZAuASB standards**

The Board APPROVED the project plan to consider the broader implications of a probable mandate change on the existing standards issued by the NZAuASB. Ian Marshall and David Hay agreed to support the staff as needed.

#### **5. XRB Strategic Action Plan**

The XRB's strategic action plan was considered and discussed by the NZAuASB. The Board was particularly supportive of changes to express the strategies in outcome-based terms.

The NZAuASB will consider its strategic action plan, based on the approved XRB strategic action plan, at the September meeting.

#### **6. New Zealand Quality Management exposure drafts**

The Board CONSIDERED matters related to the development of a New Zealand exposure draft of the IAASB's quality management proposals. The Board AGREED tentatively, pending the outcome of any changes to be made by the IAASB:

- to defer the development of the exposure draft until next year, planning to issue the exposure drafts just after the IAASB approves the standards, expected to be in March 2020;
- with the proposed titles of PES 3 and PES 4;
- with the proposed New Zealand definition of a listed issuer;
- with proposed New Zealand application material to describe the scope of the engagements subject to an engagement quality review;
- to consider references to PES 1 and the scope of the proposed ISQM 1 in New Zealand in conjunction with the mandate project;
- there is no longer a compelling reason to add additional New Zealand paragraphs related to sufficient time and documentation;

- to further consider the need for a reference to reviews conducted by the Office of the Auditor General but to reduce the additional New Zealand paragraphs specific to the public sector; and
- to include the additional New Zealand requirement for the engagement quality reviewer to consider the teams evaluation of the firms' independence.

## **7. Modified audit reports**

The Board NOTED the modified auditors' reports update.

## **8. NZ ED: Conforming Amendments to the Auditing and Assurance Standards**

The Board CONSIDERED proposed changes to domestic standards and New Zealand paragraphs in the auditing and assurance standards to address inconsistencies with the revised and restructured Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*. The project is concurrent with the IAASB's project to align the international auditing and assurance standards with the revised and restructured IESBA Code.

An exposure draft of the New Zealand changes will be issued concurrently with the IAASB exposure draft which is expected towards the end of the year.

## **9. NZASB update**

The Board received an update from Anthony Heffernan, Director - Accounting Standards, on the XRB's discussion paper, Targeted Review of the New Zealand Accounting Standards Framework.

The Board expressed its thanks to Anthony.

## **10. FMA subsequent events follow up query**

The Board considered a request by the FMA to review the existing requirement of our standards in relation to situations where, subsequent to issuing the audit opinion, the audit opinion is found to have been either incorrect or the evidence no longer supports the opinion.

The Board AGREED:

- To add a timeframe of 'within a reasonable period' to clarify when the auditor should discuss the matter with management, but to avoid the use of language such as 'immediately' or 'as soon as possible' which may have unintended consequences
- To include some more guidance about possible steps the auditor could take to prevent reliance on the auditor's report. The Board did not consider it appropriate to include a requirement for the auditor to report to the FMA as soon as possible if the audit firm becomes aware of issues with the current audit opinion. The standard already notes that the auditor's action depends on the auditor's legal rights and obligations. Including such a reporting requirement may have unintended consequences.

The agreed changes will be approved at a future meeting.

## **11. Environmental Scanning**

The Board NOTED the international, domestic and academic updates.

The Board moved out of public session.