

New Zealand Auditing and Assurance Standards Board (NZAuASB)

Minutes of the Meeting of the NZAuASB held on Thursday 8 April 2021, via Teams

Present:	Robert Buchanan, Chair Bill Edge, Board member Clyde D'Souza, Board member David Hay, Board member John Kensington, Deputy Chair Ian Marshall, Board member Karen Shires, Board member Marje Russ, Board member Robert Cox, Board member
Apologies:	April Mackenzie, XRB Chief Executive
In attendance:	Channa Wijesinghe, APESB (for agenda items 3 and 4) Ian McLoughlin, Managing Partner, Deals, PwC New Zealand (for agenda item 5 and 6) 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
Observers:	Leigh Walker, EY, for the public agenda items Zowie Pateman, CAANZ, agenda items 5, 6 Zaryab Hyder, CAANZ, agenda item 4

NON-PUBLIC SESSION – AGENDA ITEMS 1 – 2

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

PUBLIC SESSION – AGENDA ITEMS 3 – 9

The Board moved into public session.

3. **Non-Assurance Services**

Australian Perspective

The Board welcomed Channa Wijesinghe, Chief Executive Officer, Accounting Professional and Ethical Standards Board (APESB) to the meeting, who provided an update on the Australian position regarding the provision of non-assurance services (NAS).

Both the NZAuASB and the APESB have concerns that the wording of the IESBA NAS provisions is not strict enough and are considering to how these provisions could be strengthened in Australia, including variations of 'might create - , creates - , or a direct prohibition of NAS that create' a self-review threat. Of particular concern is the relatively low bar, 'likely to prevail', the firm is required to overcome in relation to tax advisory and tax planning services.

The APESB is considering the results of the PJC inquiry which recommended a blacklist approach to NAS.

The APESB is currently undertaking consultation with significant constituents in developing its exposure draft. Consultations taking place include with the regulators (Australian Securities and Investment Commission and Australian Tax Office) and the Financial Reporting Council along with the AASB and AUASB to consider the PJC recommendations. The APESB has also requested staff to engage with the firms and professional accounting bodies.

The NZAuASB and the APESB welcomed the opportunity to work together to achieve trans-Tasman harmonisation in this area, although there was also recognition that this need not necessarily result in exact alignment.

Survey

The Board recognised that while the results of the survey undertaken following the February 2021 meeting would not stand up to rigorous academic scrutiny, they do present useful evidence to confirm that there is a perception that performing NAS create threats to independence, with at least some negative effect on trust in the financial statements for nearly all types of NAS.

The Way Forward

The Board DISCUSSED the way forward, as follows:

The IESBA Approach

The Board NOTED the integrated nature of the requirements of the IESBA Code as they apply to PIEs: the need to determine whether the NAS might create a self-review threat; if that is the case the NAS is prohibited, combined with the requirement that those charged with governance approve the provision of the service.

Generally, the Board was supportive of the IESBA approach although specific concerns were raised that the provisions in relation to tax advice and planning seem at odds with the self-review prohibition.

The Board agreed however that it is in the public interest for the Board to adopt an “IESBA plus” approach, noting a general recognition that in New Zealand, the need to address public interest issues particularly around independence in appearance, supported at least anecdotally by the results of the survey.

Some board members expressed concern about moving away from the international position, recognising the need to adopt the international standards, to avoid jurisdictional variations in international methodologies and inadvertent breaches of those international methodologies.

Prohibition of all NAS

The Board AGREED that prohibiting all NAS to audit clients that are PIEs would not be an appropriate approach in New Zealand:

- Such an approach would be at odds with a principles-based Code, may be too restrictive and may have unintended consequences, particularly in the EER space.
- In many cases, the auditor is best placed to perform a NAS engagement for the PIE audit client, for example, agreed upon procedures work on the proxy count at an annual general meeting.

- There is a need for the right checks and balances, and those charged with governance play an important role in approving any work the auditor carries out. Those charged with governance need to be more transparent about the work the auditor is being asked to perform.

Alternative solutions

The Board CONSIDERED two alternative solutions that would build on the IESBA provisions.

List of Permitted Services

The Board considered adopting a position similar to the Auditor-General's approach of requiring appointed auditors and firms to apply a more stringent test when addressing independence in appearance with regard to additional work.

The Auditor-General permits "work of an assurance nature" to be carried out over and above the work that is required by to be carried out on behalf of the Auditor-General under legislation.

In the public sector, there is a view that the self-review threat is not always the most important of the threats in the context of the non-assurance engagement.

There were mixed views on the appropriateness of this approach with some members supporting and others cautioning against. Those in favour noted:

- The benefits for New Zealand of adopting a similar position to the Auditor-General's approach is the alignment with the Auditor-General's standards and the focus on independence in appearance.
- This approach would require a full analysis of the services required by legislation to be performed by the auditor and a clear understanding of what is permitted and what is not.

It was also noted that certain services permitted under the Auditor-General approach may give rise to a self-review threat.

'Blacklist' approach

The Board also expressed varying views about the appropriateness of a blacklist approach:

- The blacklist approach does not fit all the research and may run the risk of being circumnavigated in practice, i.e., it is a half-way step that will require ongoing maintenance as services continue to evolve.
- A 'blacklist' has the benefit of considering each type of non-assurance service individually, and so recognises that there are some non-assurance services where the auditor of the entity may be best placed to provide the service.
- Approval by those charged with governance is more informative in nature and is not a mitigating factor.

Outcomes

In summarising the discussion, the Chair sought general agreement from the Board that:

- An IESBA plus approach would be in the public interest in New Zealand, short of an outright prohibition on all NAS.
- The Board agree to explore further the two approaches discussed (a permitted services vs a 'blacklist' approach), working collaboratively with the Australian board in the interests of harmonisation.

- The Board report to the XRB board on the discussions to date and seek its views on the most appropriate approach, and on the benefit of further consultation with stakeholders in advance on issuing an Exposure Draft.

The Board agreed with that approach, and requested staff prepare a paper to the XRB Board setting out the various options and the discussions of the Board, including in relation to tax-related NAS. The paper is to be sent to the full Board for fatal flaw review.

The Board thanked Channa for his contribution.

4. Public Interest Entity (PIE) Definition

The Board CONSIDERED the draft submission on the IESBA exposure draft and made the following observations:

- Support for further emphasis in the final standard that the factors are to be balanced together, and not be considered in isolation;
- Three members expressed support for transparency about whether an entity is treated as a PIE or not. Some members were not clear what problem transparency would solve. One member noted that communicating the impact of being a PIE may be more informative for users, including the additional services that have been provided and the number of years served as engagement partner, with wording to confirm that the length of service is permitted.
- It was noted that in Australia, the PJC report recommendations included disclosure of both engagement partner and firm tenure.
- Caution not to be too narrow in the view of financial condition in the context of extended external reporting.

In the context of the New Zealand definition, Board members noted the following:

- While one member did not support including all FMC entities within the New Zealand PIE definition, another member would like to see licensed market operators and licensed supervisors included as PIEs.
- It is questionable whether 'traded entities' would capture the NZ emissions schemes.

The Board agreed to approve the final submission following the meeting, by email.

5. Corporate Fundraising Education Session

The Board welcomed Ian McLoughlin, Managing Partner Deals, PwC New Zealand and member of the subcommittee developing a New Zealand exposure draft, to the meeting. Mr McLoughlin provided the Board with a briefing on the assurance landscape in New Zealand in relation to corporate fundraisings highlighting that:

- There is no statutory requirement for these engagements, rather such engagements are voluntarily sought by entities that undertake significant IPOs.
- These assurance reports are available from the disclosed register on the Companies Office website.
- The need for a New Zealand assurance standard arises in an environment where directors involved in capital raising seek independent assurance to help them give their sign off. This is timely given the outlook for increased funding opportunities in the domestic market. As there is no international standard, practitioners would welcome a standard that promotes consistency in practice.

- A standard will be welcomed by practitioners, as it will also clarify expectations with the engaging party. Currently practitioners look to the Australian standard for guidance but that standard is complicated by the legislative requirements in Australia, and is therefore not fit for purpose in New Zealand. It is however important for the standards to be aligned, given that there may be dual listings
- The scope of the developing standard is very limited. It largely is applicable to mainstream equity IPOs, but could, in theory, apply to debt.
- In practice, these engagements are limited assurance engagements and therefore the recommendation is to exclude reasonable assurance engagements which are covered in the Australian standard ASAE 3450.
- The different types of information to be covered in the standard including historical, pro forma historical, prospective and pro forma prospective financial information prepared in connection with a corporate fundraising.

6. Corporate Fundraising Assurance Engagement

The Board CONSIDERED issues and reviewed a first read of the draft corporate fundraising standard.

The Board supported the work done to date. The following observations/suggestions were made:

- In the definition of 'assumptions' include wording that conveys that the assumptions are based on the information available at the time the financial information is prepared.
- Consider linking the definitions back to ISAE (NZ) 3000 (Revised).
- Review the prescribed procedures for consistency with a limited assurance engagement.
- In the report, add a requirement to include the partner's name.
- Reconsider the drafting; some of the detail in the requirements may be better placed as application material.

The Board will consider a second read at a later meeting.

7. NZAuASB Strategic Action Plan

The Board CONSIDERED the strategic action plan 2021-2026 in support of the XRB's strategic five-year action plan.

The Board made the following requests:

- Revise (a) to reflect the strategic alignment with the NZASB. This should be mirrored in the NZASB action plan.
- Integrated reporting has a meaning that is being "mis-used" and requested that XRB staff across the organisation confirm whether this is the proper term to use.
- With respect to Action 3, recognise that the constituent group is widening all the time, particularly with respect to EER.

The Board will review a revised strategic action plan at its June 2021 meeting for approval.

8. Simple Engagement Project

The Board RECEIVED an update on progress to date on the domestic project alternative engagement for small charities and was pleased that the NZASB Chair has agreed to join the subcommittee.

The Board NOTED the following:

- One member highlighted the importance of this initiative in the New Zealand context, where a number of micro entities exist but noted that there would need to be clear statement that this engagement is not an audit or a review.
- Two members expressed a preference for requiring objectivity, not independence, and that credibility may be achieved by way of disclosure of interests. Another member noted that related party issues will need to be considered.
- The engagement needs to be performed by someone who is suitable/competent in accordance with the standard.
- One member raised concern that this standard would not strictly fit within the mandate of the XRB, and recommended that the NZAuASB should not be developing the standard, rather that this would be better advanced by other stakeholders.

Staff were asked to liaise with Charities Services to get a clear understanding of what their expectations are for this type of engagement, and to progress and socialise this project within the stakeholder groups, in the hope that one of the stakeholders will pick up the opportunity to develop an alternative engagement in relation to small charities and other not for profits.

9. Environmental Scanning

The Board NOTED the international and domestic updates.

NON-PUBLIC SESSION – AGENDA ITEM 10

The Board moved out of public session.