

4 June 2019

Mr Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017
USA

Dear Willie,

IAASB Proposed Strategy for 2020-2023 and Work Plan for 2020-2021

Thank you for the opportunity to comment on the IAASB's proposed Strategy for 2020-2023 and Work Plan for 2020-2021 (the "Consultation Paper"). We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) in the attachment.

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards, including ethical standards for assurance practitioners.

Overall Comments

The NZAuASB acknowledges the broad strategic approach the IAASB has taken in developing the proposed strategy for 2020-2023, and welcomes the context provided in the introduction to the proposed strategy. The NZAuASB applauds the IAASB's continued efforts in its outreach activities with various stakeholder groups in exploring how best to meet the public interest need in an evolving world. The NZAuASB encourages the IAASB to continue with its strong outreach program to key stakeholders, in particular:

- Liaison with the IASB, recognising that quality accounting standards are a key contributor to audit quality.
- Collaborating with national standard setters recognising their role in adopting the international standards in their jurisdictions and their ability to contribute to the standard setting process both individually and collectively.
- Enhancing coordination efforts with the IESBA to ensure that the auditing and assurance standards are consistent with the International Code of Ethics for Professional Accountants (including International Independence Standards).

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk (sylvia.vandyk@xrb.govt.nz).

Yours sincerely,

A handwritten signature in black ink, appearing to read "Robert Buchanan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Robert Buchanan

Chairman

Email: robert@buchananlaw.co.nz

Submission of the New Zealand Auditing and Assurance Standards Board

IAASB Proposed Strategy for 2020-2023 and Work Plan for 2020-2021

I Schedule of Responses to the IAASB's Specific Questions

1. Do you agree with *Our Goal, Keys to Success and Stakeholder Value Proposition* (see page 6), as well as the *Environmental Drivers* (see page 7)?

Response:

The NZAuASB considers that the goals, keys to success and stakeholder value proposition as well as the environmental drivers are appropriate.

To achieve standards that are globally relevant, scalable, forward-looking and operable, it is necessary to set standards that are relevant to all entities. Standards must start with general principles that are applicable to all and then expand the standards to accommodate more complex entities.

The NZAuASB supports leveraging the skills and resources of national standard setters when appropriate to assist in providing timely responses to issues, through the broader collaboration initiative which will be progressed following the recent national standards setters' meeting in Paris.

2. Do you agree with *Our Strategy and Focus and Our Strategic Actions for 2020-2023* (see pages 8 to 13)?

Response:

The NZAuASB supports the strategy and focus of the IAASB and the strategic actions for 2020-2023. In particular, we support the decision to prioritise and focus on completing current key projects, including quality management and group audits, as well as developing the necessary implementation support. In addition, the NZAuASB is fully supportive of the less complex entity (LCE) initiative. It looks forward to the next steps to be considered by the LCE working group and the Board following the recent Paris conference, noting the Chairperson's acknowledgment at the conclusion of the conference that the topic needs to be progressed urgently.

In progressing all projects, the NZAuASB encourages the IAASB to balance, in the public interest, the need to develop standards that enhance both the ability of regulators to oversee the delivery of audits through their inspection functions, and the ability of practitioners to use professional judgement, while also avoiding unnecessary compliance burdens. The NZAuASB considers such a balanced approach to be essential to promoting and achieving audit quality in the current global environment.

At the heart of this balance is the tension between including sufficient prescription and guidance in the standards to ensure regulatory interests are met, while also maintaining the underlying principles-based approach to standard-setting. The feedback from national standard setters in relation to recently-exposed standards, both individually (when commenting on exposure drafts) and collectively (including in their recent discussions with the IAASB), is that the balance is becoming unduly skewed by the inclusion of increased prescription and guidance, with resulting impacts on the length, complexity, and ultimately the scalability and usability of the standards. This could have far-reaching impacts which are not in the public interest – including by decreasing the attractiveness of the profession, and impacting the ability to attract and retain good talent.

While the NZAuASB is following closely the debate about meeting the audit needs of LCEs, including the discussions at the recent Paris conference, it believes that the key to developing standards that are scalable for all entities is to take a bottom up approach, developing standards that are applicable to all engagements

and then to consider the additional requirements to address complexities. Standards must be high level, principles-based. Detailed compliance and guidance could be contained in separate industry and other technical guidance.

The NZAuASB welcomes the moves being taken by the IAASB, discussed at the recent national standard setters meeting, to revisit the drafting style of the standards to achieve greater simplicity, while also continuing to strike the balance appropriately between principle and prescriptiveness. The NZAuASB considers this essential to achieving the overall objective of audit quality in the long term.

The NZAuASB is fully supportive of the IAASB's strategic action, theme E: deepen our connectivity and collaboration opportunities. In particular, the NZAuASB encourages the IAASB to:

- Continue the two-way liaison with the IASB, providing input on auditability and verifiability of new and revised International Financial Reporting Standards, thereby contributing to the quality of financial reporting (for example, there is a strong overlap between the IAASB's EER project and the IASB's management commentary). The NZAuASB is of the view, supported by recent constituency feedback, that quality accounting standards are a key contributor to audit quality. Achieving good audit quality can be difficult when the objective of a requirement in the accounting standards is not clear. The NZAuASB encourages the IAASB to continue encouraging the IASB to review those accounting standards which are recognised as being in need of updating, particularly in those areas that are of significant interest to regulator oversight (for example, impairment and intangible assets).
- Continue the work of exploring new ways to expand collaboration with national standard setters to optimise activities to optimise their contribution to the international standard setting process, as well as leveraging their experience, resources and capability to help ensure that projects remain on track. The NZAuASB acknowledges the heavy work load and ambitious work plan of the IAASB and, along with other national standard setters which contributed to the Paris discussions, is encouraged by the IAASB's willingness to engage with the group to this end.
- Further enhance its coordination efforts with the IESBA, thereby ensuring consistency between the auditing and assurance standards and the IESBA, *International Code of Ethics for Professional Accountants (including International Independence Standards)*. As a national standard setter with a mandate in both auditing standards and ethics, we also strongly support the efforts of the two Boards to increase their collaboration with national standard setters – as discussed at the recent joint session at the Paris meeting.

3. Do you agree with the IAASB's *framework for Activities*, and the possible nature of such activities (see pages 11 and 12) as set out in Appendix 2 (see pages 19 and 20)?

Response:

The NZAuASB supports the Framework for Activities approach, whereby research is undertaken providing sufficient information to support the appropriate response.

4. Do you support the actions that have been identified in our detailed *Work Plan for 2020-2021* (see pages 15 and 16). If not, what other actions do you believe the IAASB should prioritize?

Response:

The NZAuASB agrees that the topics chosen by the IAASB for inclusion in the work plan for 2020-2021 are appropriate in light of the strategic goals set out in the IAASB's strategy for 2020-2023. As noted in response to question 5 below, the NZAuASB is of the view that a revision of ISAE 3400 would also merit inclusion in the current work plan.

There have been significant changes in some of the core standards over the last few years, for example, ISA 540, ISA 315 and the quality management standards. To ensure proper implementation and consistent application of these standards, thereby improving audit quality, it will be necessary to provide appropriate and timely implementation support.

The NZAuASB is supportive of the need to update the audit evidence standard. In particular, the NZAuASB encourages the IAASB to consider the role of technology, noting the changing forms of audit evidence and the difficulties that can be encountered in achieving traditional audit trails.

5. Are there any other topics that should be considered by the IAASB when determining its 'information-gathering and research activities' in accordance with the new *Framework for Activities*. The IAASB has provided its views on tentative topics to be included in its 'information-gathering and research activities' (see page 10)?

Response:

The NZAuASB notes that the IAASB has not identified the revision of ISAE 3400, *The Examination of Prospective Information*, as a priority in its work plan. We believe this standard is out of date and in need of revision. An assurance standard on prospective information is relevant for both listed entities in relation to public offerings and in the public sector (for example, in New Zealand all local government entities are required to prepare a 10 year Long Term Plan that is required to be audited every three years). The NZAuASB encourages the IAASB to include the revision of ISAE 3400 in its information gathering and research activities.

The NZAuASB also encourages the IAASB to add ISRE 2410¹ to its workplan. The NZAuASB has not adopted ISRE 2410. This is because the IAASB has not updated ISRE 2410 since 2006 and it is currently not in the clarity format. Rather, in line with the XRB's harmonisation policy with Australia, the NZAuASB has issued NZ SRE 2410² which is based on ASRE 2410³. The NZAuASB currently has in progress a project, concurrently with the Australian Auditing and Assurance Standards Board to update that standard.

¹ International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Statements Performed by the Independent Auditor of the Entity*

² New Zealand Standard on Review Engagements (NZ SRE) 2410, *Review of Financial Statements Performed by the Independent Auditor of the Entity*

³ Australian Standard on Review Engagements (ASRE) 2410, *Review of a Financial Report Performed by the Independent Auditor of the Entity*