

# Auditing Standard Setting

# Assurance Standards Update

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September 2019

# Agenda

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- Code of Ethics
- Auditor reporting
- Service Performance Information
- Accounting estimates
- Risk assessment
- Quality management proposals
- Audit of Less Complex Entities

## Timeline

- In effect
  - Auditor reporting
  - Restructured Code of Ethics
- Issued not yet effective
  - Service Performance Information (NZ AS 1)
  - Accounting estimates (ISA (NZ) 540 (Revised))
- Under construction
  - Ethics projects
  - Updated interim review report
  - Risk assessment (ISA 315)
  - Quality management suite
  - Less complex entities

# Code of Ethics

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- Revised and restructured Code
  - Effective June 2019
  - Part 4A relating to independence for audit and review engagements is effective for audits and reviews of financial statements for **periods beginning on or after June 15, 2019.**
  - Part 4B relating to independence for assurance engagements with respect to subject matter covering periods is effective for **periods beginning on or after June 15, 2019**; otherwise, it is effective as of **June 15, 2019.** Early adoption is permitted.
- Under development

## Code of Ethics



[IESBAeCode.org](http://IESBAeCode.org)

- Revised and restructured Code - Effective June 2019
- Enhanced conceptual framework
- Safeguards
- NOCLAR
- Long association
- Inducements

Code of Ethics

Under  
development

Role and  
Mindset

Non-  
assurance  
services

Fees

# Auditor reporting

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- Revised auditors' report been in effect since Dec 2016
- KAMs mandatory
  - Listed entities from Dec 2016
  - All FMC reporting entities considered to have a higher level of public accountability from Dec 2018
- New developments



Auditor reporting

New format now well established



Variation in practice:

Materiality	Audit scope	Outcome of procedures
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KAMs for all FMC reporting entities considered to have a higher level of public accountability



Post implementation review



# Interim review reports exposure draft

## Proposals to update NZ SRE 2410 interim review report

- Re-order report with conclusion first
- Independence statement
- Going concern responsibilities
- Name of engagement partner
- Material uncertainty related to going concern

## Does not require

- KAMs
- Other Information section

# NZ AS 1 The Audit of Service Performance Information

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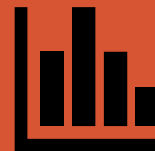
- Issued Feb 2019
- Effective Jan 2021
- Tier 3 auditors using EG Au9
- Review standard yet to be developed

# Service Performance Information



Step 1: Evaluate the suitability of the service performance criteria

Relevant  
Complete  
Reliable  
Neutral  
Understandable



Step 2: Audit the information

Materiality

# Accounting estimates

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ISA (NZ) 540 (Revised) *Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures*

- Issued Nov 2018
- Effective Dec 2019
- Implementation support

<https://www.iaasb.org/projects/isa-540-revised-implementation>

# Accounting estimates

ISA (NZ) 540 (Revised)  
Effective Dec 2019

Explicitly recognise spectrum of inherent risk

Concept of inherent risk factors

Enhanced risk assessment procedures

Separate assessment of inherent risk and control risk

Importance of auditor's decisions about controls

Objective-based work efforts requirements

Enhanced stand back provision

Requirements addressing disclosures

Requirement when communicating with TCWG

Expanded documentation requirement

# Accounting estimates



# Risk assessment

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## Proposed ISA 315 (Revised)

- Expected approval Dec 2019?
- Expect new drafting style
- Proposed effective date – 18 months after approval

# System of Internal Control

Definitions	
New	Revised
Application controls	Controls
General IT controls	Access controls (glossary)
IT environment	

Components of Internal Control
1. Control environment
2. The entity's risk assessment process
3. The entity's process to monitor the system of internal control
4. The information system and communication
5. Control activities



# Framework for Identifying and Assessing ROMM



Definitions	
New	Revised
Inherent risk factors	Assertions
Relevant assertion	Significant risk
Significant classes of transactions, account balances or disclosures	

Inherent risk factors <u>include</u> :
1. Complexity
2. Subjectivity
3. Uncertainty
4. Change
5. Susceptibility to misstatement due to management bias or fraud

## Key change in assessing risk of material misstatement

**Separate** assessment of inherent risk and control risk

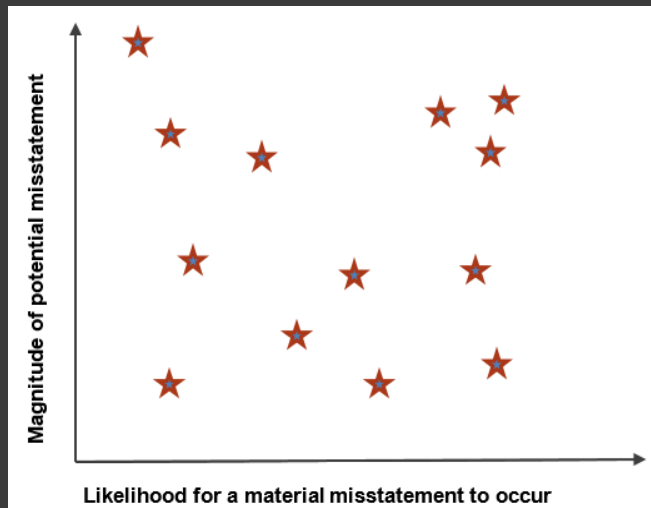
## Concept of 'spectrum of inherent risk'

The degree to which inherent risk varies, is referred to as the 'spectrum of inherent risk' – consider likelihood and magnitude of material misstatement to determine where on the spectrum the risk lies

# Significant Risks

**Significant risk definition** – An identified risk of material misstatement:

- For which the assessment of inherent risk is *close to the upper end of the spectrum of inherent risk* due to the degree to which one or a combination of the inherent risk factors affect the *likelihood of a misstatement* occurring or the magnitude of potential misstatement should that misstatement occur; or
- That is to be treated as a significant risk in accordance with the requirements of other ISAs



## Significant risks – Other ISAs

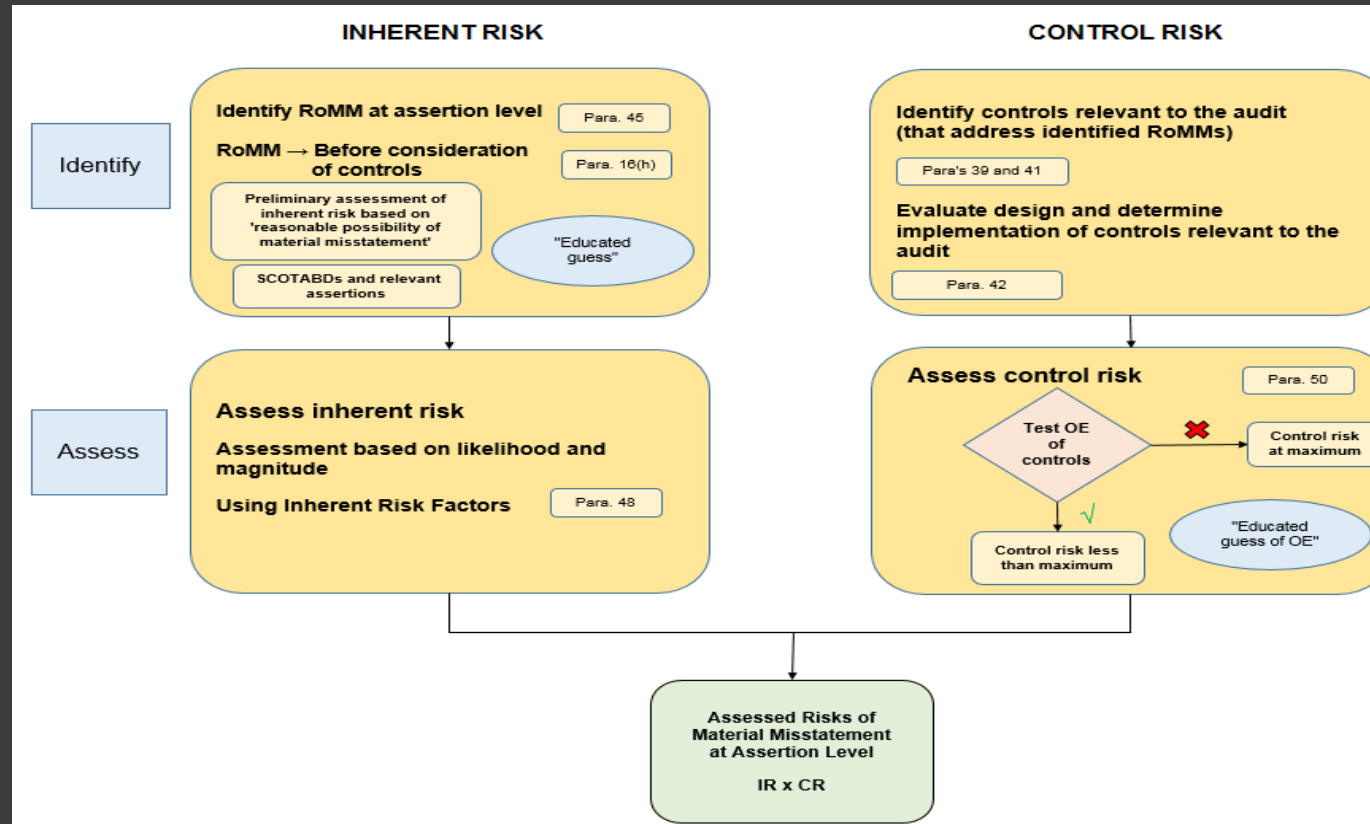
*ISA 240 – para. 27*

Presumption that there is a risk of fraud in revenue recognition

*ISA 550 – para. 18*

Identified significant related party transactions outside the normal course of business

# Separate assessment

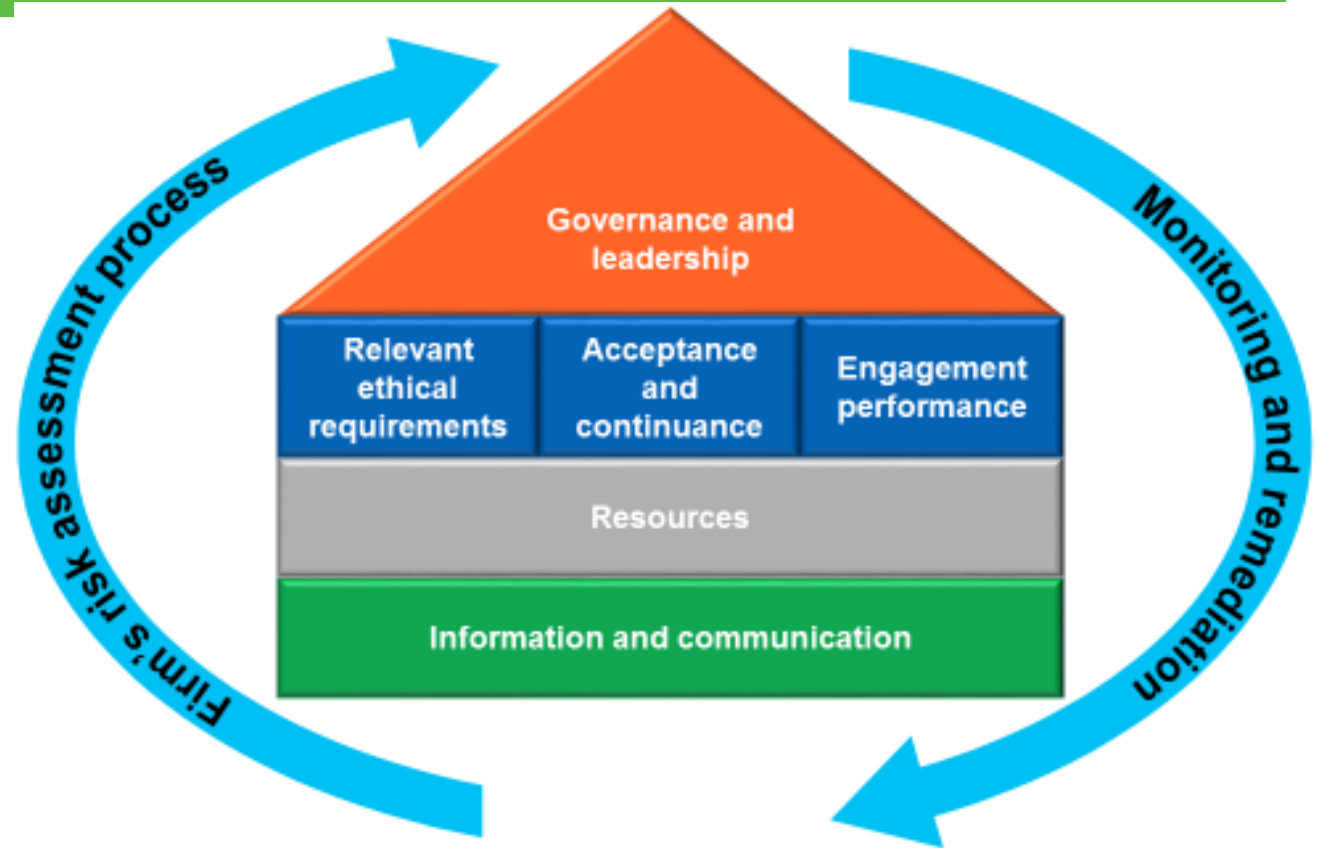


# The proposed quality management standards

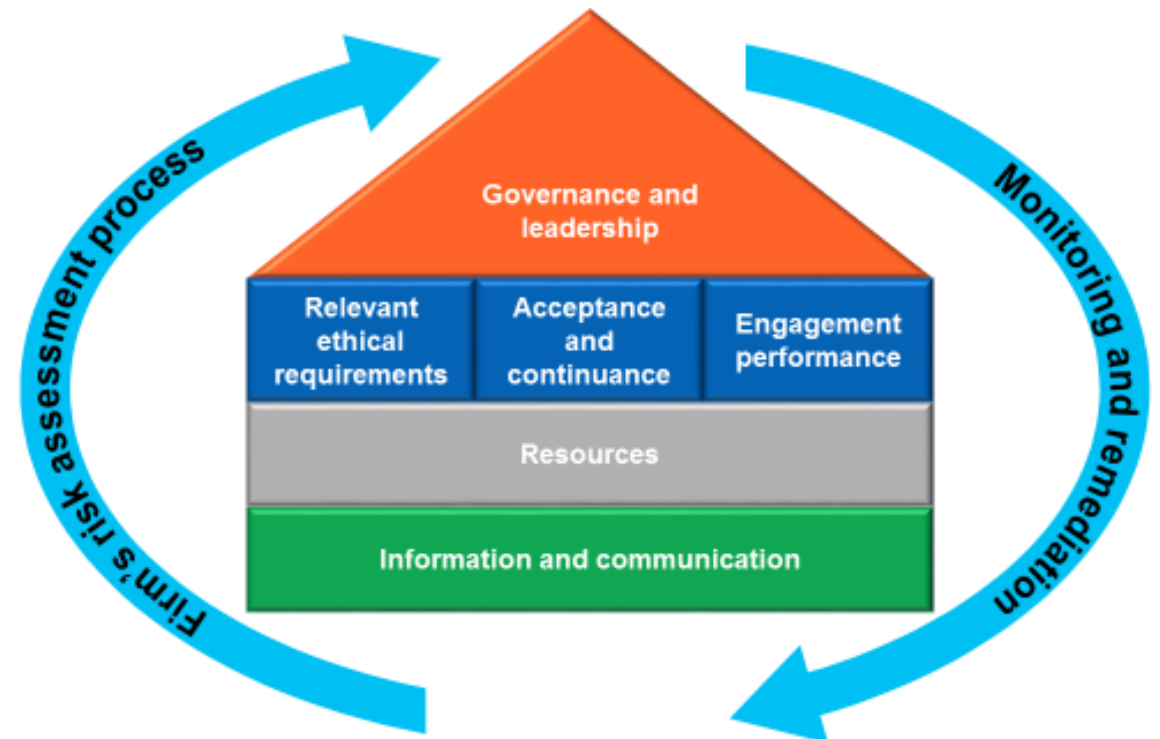
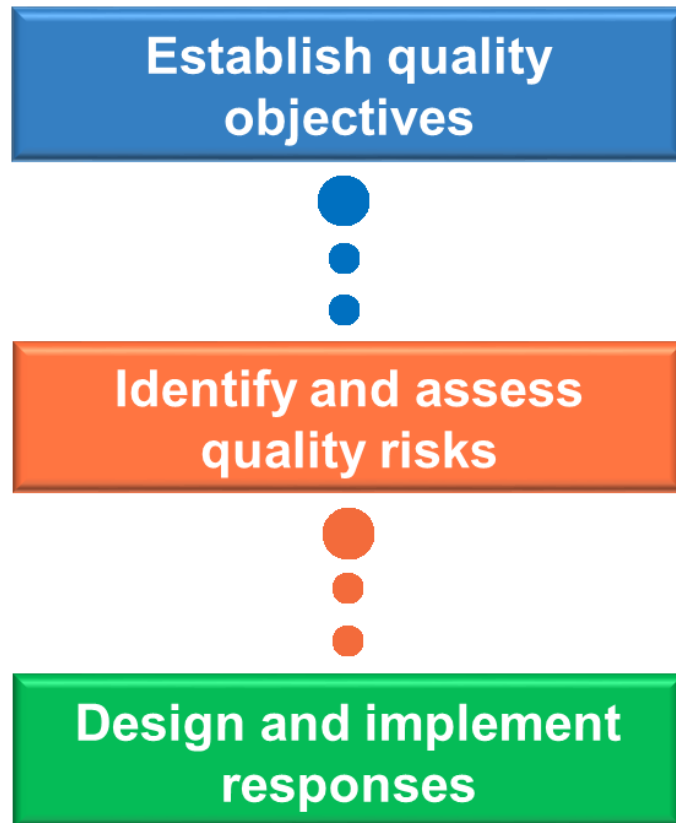


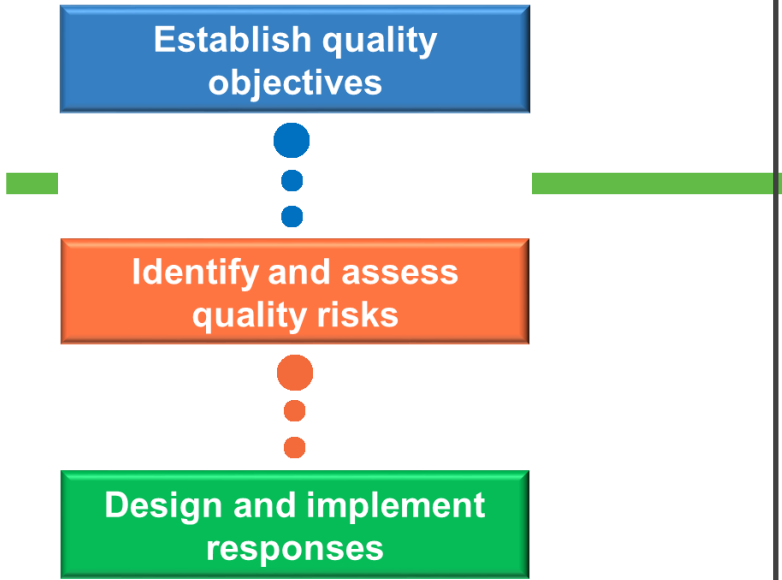
# New approach to quality management

- Components of a system of quality management:
  - Governance and leadership (adapted from “leadership responsibilities for quality”);
  - The firm’s risk assessment process (new);
  - Relevant ethical requirements (same);
  - Acceptance and continuance of client relationships and specific engagements (same);
  - Engagement performance (same);
  - Resources (adapted from “human resources”);
  - Information and communication (new); and
  - Monitoring and remediation (adapted from “monitoring” ).



# The firm's risk assessment process

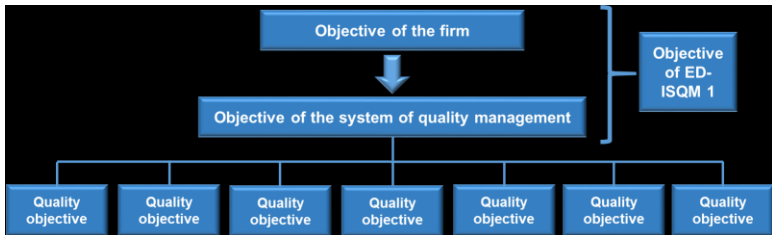


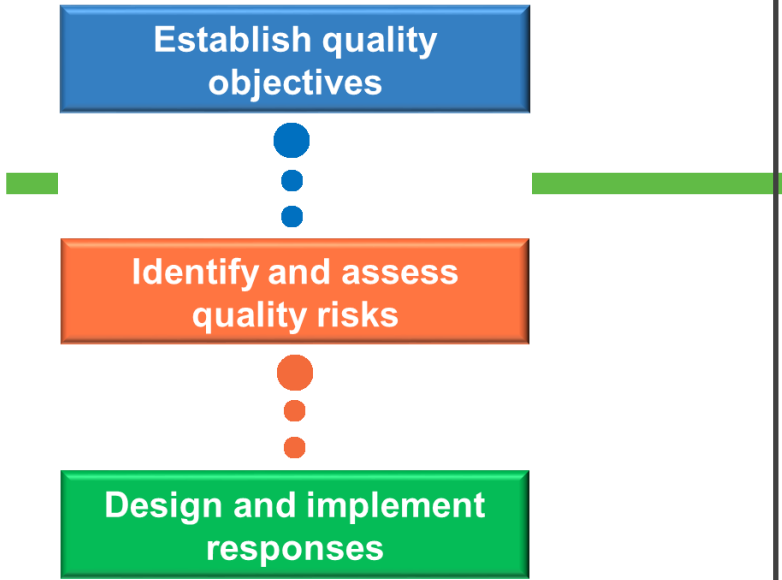


# Establish quality objectives

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- Quality objectives required by the standard for each component
- Additional quality objectives beyond those required by the standard, when those objectives are necessary to achieve the objectives of the standard
- Outcome based – how achieved determined by the firm





# Identify and assess quality risks

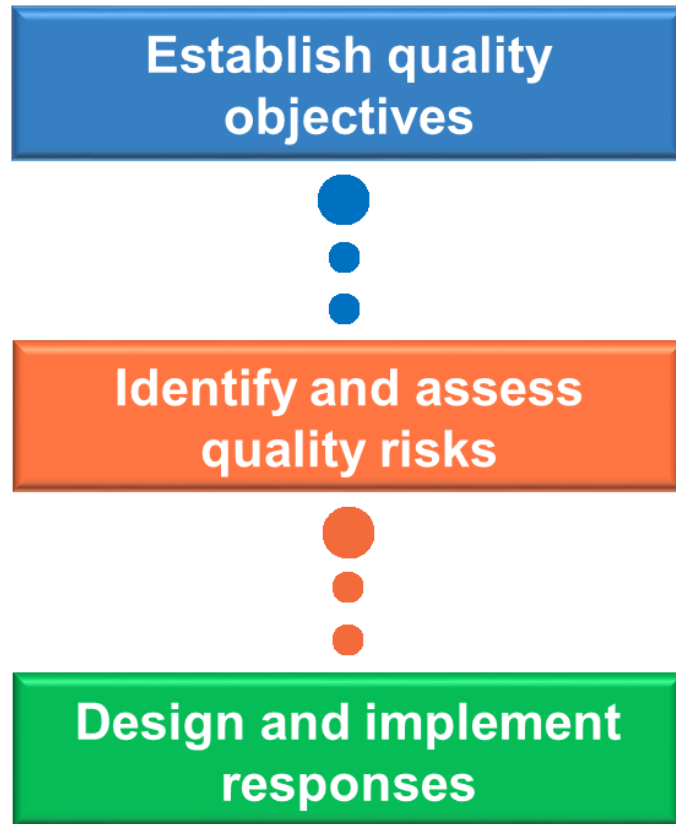
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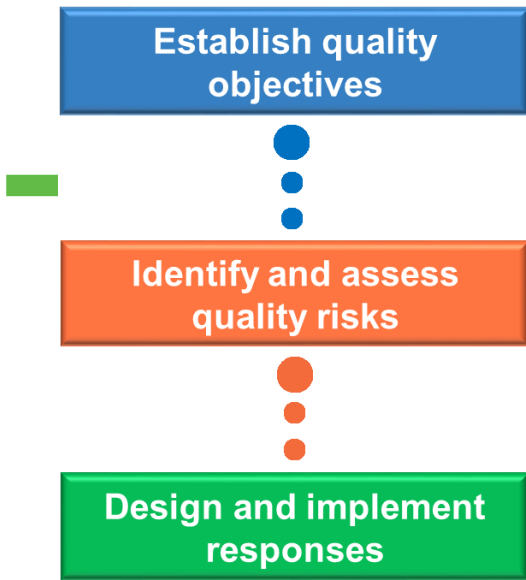
- Identify conditions, events, circumstances, actions or inactions that may adversely affect the achievement of its quality objectives
- Taking into account the nature and circumstances of the firm and its engagements.



# Identify and assess quality risks

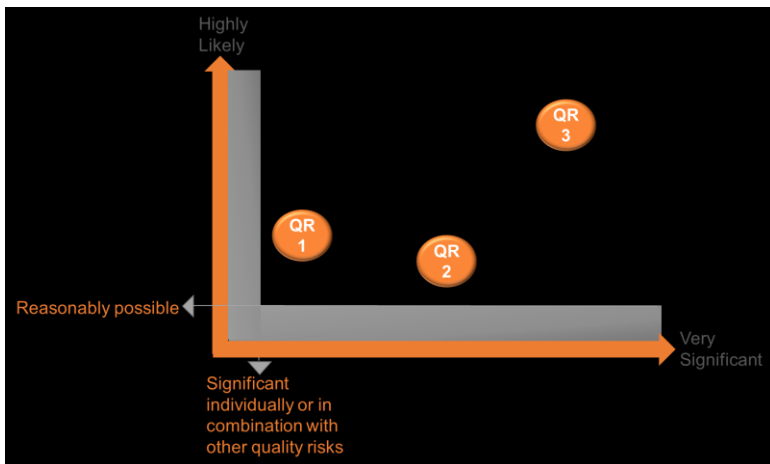
Echoes the principles in the IAASB's recently published ED Draft, ISA 315 (Revised)

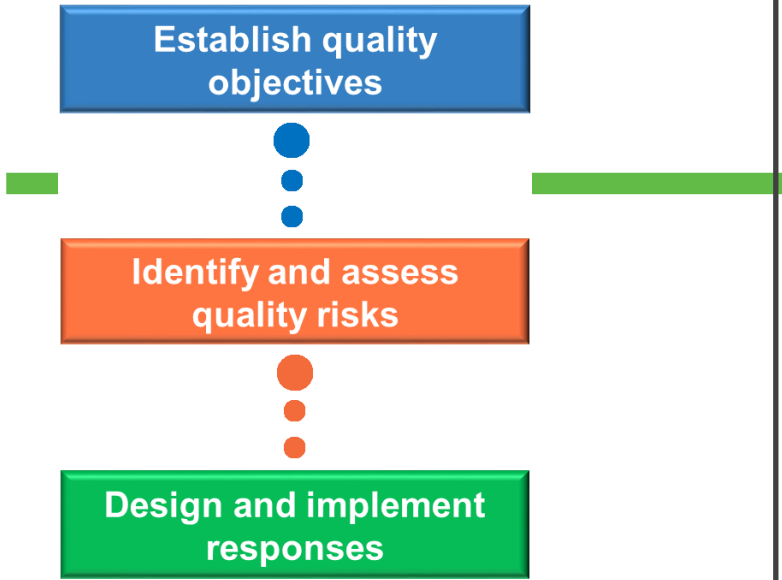




# Identify and assess quality risks

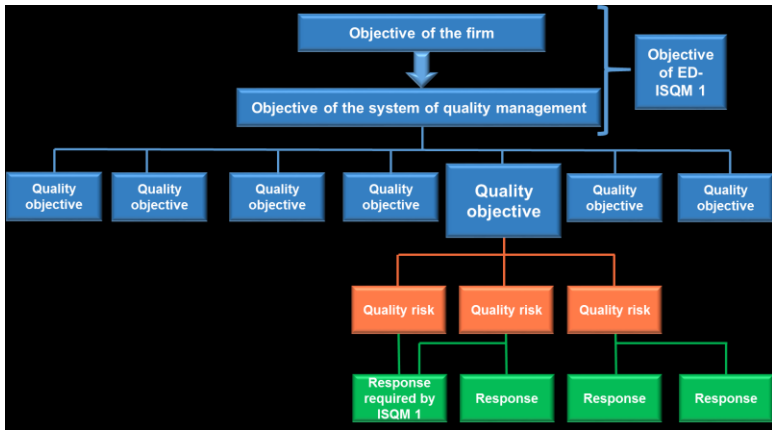
- Assess likelihood and magnitude
- Risk assessment informs nature of the response





# Design and implement responses

- ED includes required responses
- Not comprehensive
- Not all relevant in all circumstances
- Not directly linked in the ED to quality objectives



# Less complex entities

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Discussion Paper issued

- Comments closed 12 September

# What is a less complex entity?

- “An entity which typically possesses qualitative characteristics such as:
  - Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and
  - One or more of the following:
    - Straightforward or uncomplicated transactions;
    - Simple record keeping
    - Few lines of business and few products within business lines
    - Few internal controls
    - Few levels of management with responsibility for a broad range of controls; or
    - Few personnel, many having a wide range of duties.
- These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

# Challenges related to applying the ISAs



Language and basic approach to the standards



Length



Documentation



Lack of clarity as to what needs to be done and why on audits of LCEs



Not enough guidance



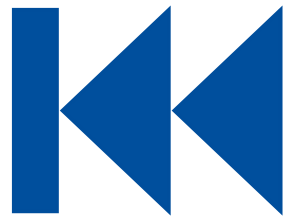
Specific ISAs are especially problematic



Revising the ISAs

Develop one  
separate standard  
for audits of LCEs

Guidance



Wrap up



# Modified Audit Reports

## Auditing

Effective from 1 April 2014, auditors of FMC reporting entities and/or companies must submit copies of modified audit reports and the related financial statements to:

- the XRB, in addition to sending it to
- the FMA
- the Registrar of Companies and,

in the case of an issuer of debt securities or a manager of a registered scheme, to

## Need to submit a Modified Audit Report?

We have added a new feature to streamline the process.

We want to ensure that as auditors you can easily follow and upload your reports and we want to collect the right information from you.

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- Auditing Standards
- Professional and Ethical Standards
- Review Standards
- Other Assurance Engagement Standards
- Recent Approvals
- Standards in development
- Archived Standards
- Explanatory Guides
- Audit Guidance
- Auditor Rotation
- Description of the auditor's responsibilities
- Auditor Reporting
- Modified Audit Reports**

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