

New Zealand Auditing and Assurance Standards Board (NZAuASB)

Minutes of the Meeting of the NZAuASB held on Wednesday 2 September via online Teams meeting

- Present:** Robert Buchanan, Chair
John Kensington, Deputy Chair (from 9.30am)
David Hay, Board member
Ian Marshall, Board member
Karen Shires, Board member (from 9.20am)
Robert Cox, Board member
Roger Simnett, Board member
Clyde D'Souza, Board member
Marje Russ, Board member
- In attendance:** Brian Friedrich, IESBA member and Technology Task Force Chair (for agenda 3)
Greg Schollum, Deputy Controller and Auditor-General, Office of the Auditor General (for agenda item 5)
Michele Embling, Chair, XRB (for agenda item 3)
April Mackenzie, 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
- Observers:** Kam Leung, IESBA staff (for agenda item 3)
Rene Herman, Senior Project Manager, AUASB (for agenda items 4 and 10)
Nives Redmayne-Botica (for agenda item 3)
Mike Bradbury (for agenda items 3 and 4)
Richard McGee, Office of the Auditor-General
Joanne Scott, Senior Project Manager Accounting Standards (for agenda item 3)
Lisa Kelsey, Senior Project Manager Accounting Standards (for agenda item 3)
Zaryab Hyder, CAANZ (for agenda item 4)
Nicola Hankinson, Staples Rodway (for agenda item 3)
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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. Technology

The NZAuASB welcomed Brian Friedrich, IESBA member and Technology Task Force Chair to the meeting and received an update on the IESBA's technology project.

Board members provided the following comments to Brian:

- Support for updating the term “office”.
 - The concept is difficult to apply and is relative to the size of a firm. Additional material is needed to frame how a PA forms a view. For example, New Zealand firms are relatively small, so is it really appropriate to consider the Auckland “office” being separate from the Wellington “office”? In larger jurisdictions, where a single office has hundreds of partners, the level of influence may historically have been scoped around a floor in an office.
 - In a technology environment, influence may link to access to data or information, and who can control processes, which is not limited to a physical office.
 - Conflict of interest issues is an important consideration. The “office” is an elastic concept in need of adjustment.
- Support for consideration of “routine and mechanical” with reference to the full range of technological developments.
- In terms of the four options under consideration for addressing complexity:
 - Has the Task Force considered smaller jurisdictions, like New Zealand, where there might be a smaller pool of outside expertise to draw on, or in environments where it is especially difficult to get outside knowledge.
 - Support for the idea of moving towards a solution, working around the “black box”.
 - Recognition that developing a simple solution for the Code is likely to be a challenge.
 - Support for comments around explainability issues, analogous to climate change/natural events complex modelling. Supportive of an approach that helps people understand uncertainty. This approach draws strong parallels to models used by scientists and engineers.
 - With reference to the fundamental principles, there is a strong tie to integrity and independence when it comes to resolving complexity.
- In relation to recommendation 6 on competence:
 - The focus appears to be on “soft skills” but there is also a need to emphasise technology knowledge and competence.

- Caution against cross referring to the education standards. The Code is a “one stop shop” for many, so cross referring to other standards that professional accountants do not routinely refer to will not be adequate.

4. Group Audits

The Board welcomed Rene Herman, Senior Project Manager, AUASB to the meeting. She provided the Board with the AUASB views on the proposed standard.

The Board noted the submission received from AFAANZ on the proposed revisions to ISA 600. The Board members expressed their gratitude to AFAANZ for the quality submission and their desire for future submissions from AFAANZ. The Board noted the AFAANZ plan to send the submission to both the IAASB and the AUASB.

The Board CONSIDERED the draft NZAuASB submission prepared by staff and provided the following feedback:

- In relation to the draft response to question 6 of the ED, the response does not include any suggestions how the standard can be improved to address the raised concerns. There is a need either for suggestions on how these issues can be addressed or for the response to be structured in a more rounded way. For example, by acknowledging the improvement in the ED and that the standard seems to have gone as far as it practically can to address the access issues, and that achieving further improvements would depend on actions from other stakeholders (e.g. audit practitioners, audit monitoring authorities, those charged with governance of groups etc.).
- The draft response to question 11 regarding documentation does not include any suggestions as how the standard can be improved to address the raised concerns.
- The Board was divided on whether providing additional information in the auditor report about the involvement of component auditors would be appropriate. Those against including additional information were of the view that it would confuse the readers without providing additional useful information. Those for including more information about how component auditors are involved referred to recent research conducted in the USA (detailed in the AFAANZ submission) showing that users of financial statements were interested in knowing more about component auditors and the extent of their involvement in the group audit. It was noted that at this stage, such information is not provided in the auditor report, but is available in the form of additional disclosures the regulator requires from the group auditor and which is available to the public.

The Board AGREED to establish a working group to support staff in finalising the submission, specifically in relation to matters raised in the AFAANZ submission that may further inform the NZAuASB responses to the ED.

The Board thanked Rene Herman for her very helpful contribution to the meeting.

5. Meeting with Greg Schollum

The Chair welcomed Greg Schollum, Deputy Controller and Auditor-General, to the meeting.

Greg discussed with the Board the impact of COVID-19 on the public sector and the Office of the Auditor-General’s response to COVID. Entities and their auditors are dealing with extra complexity, uncertainty and audit risk. Entities are being encouraged to tell their story about the impact of COVID-19 on them. The OAG requires all audit reports that do not include key audit matters to include an emphasis of matter paragraph to draw attention to the disclosures and to help the readers navigate to those disclosures.

Discussions also touched briefly on the OAG’s views on the Monitoring Group’s report recommendations and the OAG’s approach to non-assurance services.

The Board thanked Greg for his attendance and the very informative discussion.

6. Part 2 of the Code

The Board CONSIDERED the proposed amendments to Professional and Ethical Standard 1 to include Part 2 of the IESBA Code in light of the comments made in the submission received.

A Board member raised a question about the appropriateness of the example given in paragraph 300.5 A1 of preparing or presenting financial information for the assurance practitioner's client or firm. The Office of the Auditor-General had noted, in its submission, that reference to the assurance practitioner's client is problematic as Professional and Ethical Standard 1 prohibits such services for assurance clients.

The Board REQUESTED staff to include wording to clarify that preparing or presenting financial information for an assurance client by the assurance practitioner is not permitted.

The Board APPROVED the amendment to Professional and Ethical Standard 1 to adopt Part 2 subject to out of session confirmation of the clarification to paragraph 300.5 A1.

The Board also requested that discussion regarding clarification be included in the signing memorandum.

7. Monitoring Group Report

The Board considered an analysis of the Monitoring Group's recommendations and provided the following comments:

- The composition of a multi-stakeholder board, the structure of the XRB, together with the opportunity to consult with the XRAP, strongly supports a broader consultation process, and this already reflects the public interest.
- The broader non-financial information context seems to be particularly relevant to New Zealand.
- Whilst recognising that the public interest framework extends usefully beyond a listed entity focus, there is a need to broaden it out further, to include the public sector, and all entity sizes.
- The need to lift this higher than the NZAuASB, for consideration by the XRB Board, at an organisation wide level.
- While it is important to be transparent, and have good documentation, caution against building in a timely, onerous process that may slow the standard setting process down. There is a need to be flexible and nimble to address public interest matters.
- Caution against overly focusing on the characteristics of the public interest, while recognising the public interest responsiveness factors.

8. Compelling Reason Test

The Board CONSIDERED and PROVIDED preliminary views about proposed amendments to the compelling reason test and harmonisation policy. The Board made the following observations on the preliminary draft:

- Adoption of an expanded test may create barriers to timely outcomes; emerging issues may be difficult to identify.
- Establish the overarching principles up front and follow up with the more detailed public interest factors.
- The IFAC public interest definition should be removed; this is superseded by the monitoring group definition.
- Does the IESBA have a policy equivalent to the IAASB's position paper *A Guide for National Standard Setters that Adopt IAASB's International Standards but Find It Necessary to Make Limited Modifications?*

A revised draft addressing feedback from both the NZAuASB and the AUASB will be considered at the joint meeting with the AUASB in October.

9. Role and Mindset

The Board CONSIDERED the approved changes made by the IESBA (subject to PIOB approval), which followed amendments (subsequent to feedback received from stakeholders) to the IESBA's ED, *Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants*.

Subject to the PIOB approval the Board AGREED to the proposed amendments and concluded that other than the matter discussed below, the amended Code is consistent with the Board's feedback provided to the IESBA in its submission.

The Board NOTED that the IESBA has not amended the Code to incorporate the Board's suggestion to clarify that a professional accountant is also responsible for maintaining and enhancing the public trust in the profession. The Board DISCUSSED this matter and concluded that it would be in the public interest to include this reference in PES 1 when this section is amended in New Zealand. Consequently, the Board REQUESTED staff to prepare a compelling reason analysis to incorporate this statement into PES 1.

The Board will consider the compelling reason test in approving the final revisions to PES 1 in the due time.

10. Agreed-Upon Procedures

The Board welcomed Rene Herman, Senior Project Manager, AUASB to the meeting.

The Board received an update on the compelling reason amendments the AUASB is considering making in response to stakeholder feedback on its exposure draft and the rationale therefor, and provided initial views about whether those changes (in particular, retention of the restriction on use requirement) would be appropriate for the New Zealand standard. The AUASB would be considering the proposed amendments at its meeting the following week.

The Board expressed mixed views about whether the AUP report should be required to be restricted in all cases. Board members in favour of restricting the AUP report expressed

concerns that users do not understand the purpose of the AUP engagement and may inappropriately rely on or take assurance from the AUP report. Those with opposing views questioned whether mandating a restriction in all cases is in the public interest and whether the compelling reason test would be met.

It was noted that the international standard strikes a good balance providing the option to restrict the AUP report, while not mandating a restriction. The international standard does require the purpose of the report to be identified and a statement that the AUP report may not be suitable for another purpose.

The Board thanked Rene Herman for her very helpful contribution to the meeting. Roger Simnett indicated that the NZAuASB's comments would be drawn to the AUASB's attention when it considered the matter.

11. Environmental Scanning

The Board NOTED the international, domestic and academic updates.

NON-PUBLIC SESSION – AGENDA ITEM 12

The Board moved out of public session.