

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

### Minutes of the Meeting of the NZAuASB held on Thursday 3 December 2020 at CA ANZ, Auckland Conference Centre, 12-16 Nicholls Lane, Parnell, Auckland

- Present:** Robert Buchanan, Chair  
Clyde D’Souza, Board member  
David Hay, Board member  
Ian Marshall, Board member  
Karen Shires, Board member  
Marje Russ, Board member  
Robert Cox, Board member  
Roger Simnett, Board member
- Apologies:** John Kensington, Deputy Chair
- Invited guests:** Andy Bowley, Forsyth Barr  
Blair Cooper, ACC  
Stephen Hudson, Macquarie Group Ltd  
Stephen Layburn  
Stephen Ridgewell, Craigs Investment Partners
- In attendance:** April Mackenzie, XRB Chief Executive (for agenda item 2)  
Michele Embling, XRB Board Chair (for agenda items 3-4)  
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  
Fiona Campbell, IAASB member (for agenda item 3)  
Matthew Zappulla, Director Assurance Standards, AUASB (for agenda item 8)
- Observers:** Clare Grayston, CPA Australia (for agenda items 3-7,9)  
Jana Schmitz (for agenda items 3-7,9)  
Jeannette Dawes, CA ANZ (for agenda items 5-7,9)  
Zaryab Hyder, CA ANZ (for agenda items 3 and 5)

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#### NON-PUBLIC SESSION – AGENDA ITEMS 1 – 2

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1. WELCOME
2. BOARD MANAGEMENT

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#### PUBLIC SESSION – AGENDA ITEMS 3 – 9

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The Board moved into public session.

3. Fraud and Going Concern

The Board CONSIDERED the IAASB’s Consultation paper and developing draft submission and provided the following feedback in order to finalise a New Zealand response:

- Identify which stakeholder view is represented more specifically;
- Weave the public interest into the responses more explicitly;
- Delete the statement that New Zealand has not had high profile corporate scandals;
- Specifically note that we have not considered less complex entities (LCEs), given the separate project, or bring in the perspective as necessary;
- Reiterate that the solution is beyond audit, and that the entire ecosystem is required to contribute to the solution of addressing user needs. While users may be demanding more, they may not understand what they are asking for, the cost of these demands and what is needed to respond.

## Fraud

- Emphasise that fraud is more than defalcation and includes misrepresentation as well. Investors and users' definition of fraud may be broader than that of auditors, and this is contributing to the expectation gap. The auditor is working to detect both financial statement fraud and the theft of assets. Bribery and corruption may be addressed through responsibilities relating to non-compliance with laws and regulations. However, the Board acknowledged the challenges of defining fraud to meet everyone's definition, for example, fraud in the public sector takes on a different meaning again.
- Confirmed the view that forensic specialists are not needed necessarily. For smaller practices this would be challenging to implement in practice.
- Emphasise the need to develop auditors' forensic skills. Remove the statement that "This does not seem appropriate".
- Emphasise that the scope of a forensic engagement is very different to an audit. An audit is looking for the risk of misstatement, i.e., considering the risk of fraud. A forensic engagement is used when fraud is suspected, i.e., it is a much deeper dive and is not always appropriate for the auditor to perform such work, as this is not in the scope of an audit or commensurate with an auditor's core skills. That deeper dive requires a different engagement and skill set from what the auditor is engaged to do. Those charged with governance share responsibility for ensuring the investigative work is undertaken.
- A clearer framework is required for what is expected of management (for example, a Sarbanes Oxley-type framework). Auditors could then be engaged to provide an independent view on whether those responsibilities have been met, by either a separate or an extended scope of assurance engagement.
- The auditing standards require a significant amount of time to be spent looking at journal entries. Fraud is seldom found by auditors testing journal entries. Technology has enabled more sophisticated types of fraud and the fraud standard should reflect this.
- Expertise and experience are often held at the senior staff and engagement partner level, i.e., to identify the risk of fraud requires extensive industry knowledge. The need to share this knowledge with more junior staff would assist to better train auditors on fraud identification.

## Going concern

- Delete the statement that auditors have rarely had to deal with the level of challenging going concern judgements and emphasise that the COVID environment has provided a rich training ground for preparers to better understand their responsibilities.
- Expand the point about the need to clarify what is meant by going concern and how liquidity, solvency and resilience work with the concept of the going concern basis of accounting. The going concern basis is too narrow a construct to meet users' needs. The expectation gap is likely to widen in the short term. To recover from the COVID-19 pandemic, companies will not be able to use the past to plan for the future and will be under increasing stress. Broader reporting, in a more integrated way, is the first step to narrow the expectation gap. It will take a while to get there, so the important question for the IAASB (and the XRB) will be what to do in the interim. There is a need for ongoing education and thought leadership to help the conversation.
- Confirm support for broadening the obligations on directors to report on the resilience of the entity in the first instance. Such a move might provide the opportunity for the auditor to consider or opine on the statement. This might better meet users' needs.

The NZAuASB agreed to finalise the submission by way of circular resolution in the new year.

## 4. Meet with Guests

The Board welcomed guests from the broader wholesale investor stakeholder group to the meeting to discuss matters of mutual interest, including the impact of COVID-19 and uncertainty, and carbon related disclosures.

- In relation to COVID-19:
  - There was a broad level of cooperation from various parties, for example, NZX, IOD, in response to COVID-19.
  - Surprise at the positive outlook of some of the companies.
  - Inconsistency in reporting of the wage subsidy.
  - Recognition of the inherent degree of uncertainty in relation to certain entities' accounts.
  - Consistency in the approach taken by valuers in New Zealand in relation to the uncertainty in the valuation of properties.
- The stakeholders raised concerns around the segmental information and a desire for auditors to help investors by challenging more the entity's segmental splits. Segmental information is crucial for analysts in term of valuation of the business. There is also concern that using one level of materiality across all segments is not appropriate given differing levels of volatility.
- Wholesale analysts don't generally read the auditor's report. A degree of comfort is obtained from the audit having taken place, but many of the matters addressed in the audit report are expected to already be known in the market.
- IFRS 16 is the most unhelpful accounting change. This standard has worsened the information available to investors.

- Introduction of the TCFD is a welcome move. It will bring companies that have been slow to get on board with climate related disclosures forward. There is also a desire to see greater disclosure around emissions trading scheme obligations.

## **5. Agreed-Upon Procedures**

The Board CONSIDERED the agenda papers presented, including the compelling reason analyses prepared by the AUASB staff in support of the AUASB's changes to the international agreed-upon procedures engagement standard and the agreed wording of the AUASB standard. Noting the consideration of these matters by the IAASB in developing the international standard, and the various views expressed by Board members for and against mandating a restriction on use of the AUP report, the Board CONCLUDED that the compelling reason test is not met in New Zealand,

The Board NOTED this will result in some divergence between the Australian and New Zealand standards. The Board APPLIED the principles of harmonisation and CONCLUDED the differences should not prevent consistent application of the standard in the two jurisdictions. The Board therefore DETERMINED to adopt the international standard without change, as exposed.

The AUP standard and signing memorandum will be circulated to the Board for formal approval, with the standard to be released in the new year.

The Board also REQUESTED staff to develop a communications strategy with a wider focus than usual, noting that this standard will apply beyond the accountancy profession.

## **6. Annual Improvements**

The Board CONSIDERED and AGREED, in principle, the amendments presented in agenda item 6 of the Board papers.

The Board QUESTIONED the need to expose the amendments, given the editorial nature of the proposed changes. Staff noted that, with the exception of the proposed change to the definition of assurance practitioner in Professional and Ethical Standard 1, ordinarily these types of changes would not be exposed. However, given the need to amend Professional and Ethical Standard 1, staff had taken the opportunity to present these to the Board. The Board REQUESTED that the ITC and exposure draft not address the editorial changes, noting that to do so might create an inappropriate precedent.

The Board APPROVED an exposure draft amending the definition of assurance practitioner in Professional and Ethical Standard 1 to align with the revised definition of assurance practitioner in XRB Au1<sup>1</sup>, to be issued in January 2021 with a 30 day consultation period. The editorial changes to the standards will be processed silently.

## **7. Compelling Reason and Harmonisation Policy**

The Board CONSIDERED a modified draft of the compelling reason and harmonisation policy updated to reflect changes made as a result of the AUASB meeting held earlier in the week.

The Board RESOLVED to adopt the policy subject to further changes to be signed off by the Chair and Deputy Chair following further consideration by the AUASB.

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<sup>1</sup> XRB Au1, *Application of Auditing and Assurance Standards*

## **8. Prospective Financial Information**

The Board RECEIVED a verbal update on activities to date and progress on the standard specific to assurance in a corporate fundraising engagement.

The Board NOTED It may be useful to liaise with Ian McLoughlin, Managing Partner, Deals, PwC New Zealand, and/or Roger Wallis, Partner, Chapman Tripp at the April Board meeting ahead of the discussion of issues and first read of a draft corporate fundraising standard.

The Board also DISCUSSED the applicability of the proposed project to comfort letter engagements, noting that there may be a gap in the NZAuASB's standards in this respect, as it is not intended that the corporate fundraising standard project encompass such engagements. Comfort letter engagements are more akin to an agreed-upon procedures engagement.

## **9. Environmental Scanning**

The Board NOTED the international, domestic and academic updates.

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### **NON-PUBLIC SESSION – AGENDA ITEM 10**

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The Board moved out of public session.