

New Zealand Auditing and Assurance Standards Board (NZAuASB)

Minutes of the Meeting of the NZAuASB held on Wednesday 10 February 2021 at XRB, 50 Manners Street, Wellington

- Present:** Robert Buchanan, Chair
Clyde D'Souza, Board member
David Hay, Board member
John Kensington, Deputy Chair
Karen Shires, Board member
Marje Russ, Board member
Robert Cox, Board member
Bill Edge, Board member
- Apologies:** Ian Marshall, Board member
- In attendance:** April Mackenzie, XRB Chief Executive (for agenda item 2)
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
Matthew Zapulla, AUASB (for agenda items 1, 2, 7 and 8)
Rene Herman, AUASB (for agenda item 6)
- Observers:** Nicola Hankinson, Baker Tilly Staples Rodway (agenda items 3-6)

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 and Fee-Related Matters

The Board NOTED the key matters raised by the NZAuASB in response to the IESBA Non-Assurance Services (NAS) and Fee-Related Matters (Fees) Exposure drafts, and how the IESBA had dealt with significant issues raised in finalising the amendments to the International Code of Ethics.

The Board CONSIDERED whether the IESBA has gone far enough in addressing the concerns the Board raised in its submission, and if there is a compelling reason to go further in New Zealand.

Anecdotal evidence suggests there has been a decline in the level of NAS provided to FMC reporting entities and the provision of NAS to these entities by the auditor is no longer seen as a big concern by the FMA. However, there is still a concern that independence in appearance

may be an issue and that further research/information is needed about how the provision of NAS impacts users' perception of independence in appearance in New Zealand.

The Board DISCUSSED whether there is a need to further strengthen the provisions in New Zealand, specifically given the Auditor-General's approach of requiring appointed auditors and firms to apply a more stringent test when assessing independence in appearance with regard to NAS work, and additional work of an assurance nature, for public sector entities (many of which are also public interest entities under the New Zealand definition).

The Board also acknowledged the need to work closely with the Accounting Professional and Ethical Standards Board in Australia to ensure a harmonised trans-Tasman approach.

The Board NOTED the following possible options regarding the approach to the provision of NAS, with mixed views from the Board members about which direction to take.

Option 1

Adopt the international standards with no amendments, which is to prohibit the provision of NAS which will result in a self-review threat for audit clients that are PIEs (all Tier 1 reporting entities in New Zealand).

This option will align with global firms' policies, but on the other hand the process to assess whether there is a self-review threat may be time consuming, with a risk of inconsistent application, and unintentional non-compliance.

Option 2

Option 1, with further application guidance and examples about how to assess the self-review threat, including application guidance on the reasonable and informed third party test.

Option 3

Follow the same direction that the Auditor-General has taken, i.e., prohibit all NAS, and only allow additional services defined as "audit related services".

The challenge with this option is how to define "audit related services" to ensure consistent application. A definition could be, for example, to permit the provision of AUP engagements, other assurance engagements, and any other services required to be performed by the auditor by law or regulation in addition to audit and review engagement.

Option 4

To prohibit the performance of any NAS. This "nuclear option" will ensure a consistent approach, eliminate the time-consuming assessment of the self-review threat, and address concerns relating to independence in appearance.

Staff will liaise further with the APESB and perform targeted outreach with users of the financial statements about the various options, including trying to get a better understanding of the impact of the provision of NAS on the perception of independence in appearance.

Regarding the Fees amendments, no compelling reason changes have been identified. A final standard will be considered by the Board at the same time as the NAS proposals are finalised in New Zealand.

4. Public Interest Entity Definition

The Board CONSIDERED the IESBA exposure draft and provided the following preliminary views:

- Agreement that the rationale for the proposed PIE requirements as included in proposed paragraph 400.9 may be confusing and misunderstood to imply that there were two levels of independence. The Board discussed that there may be different or heightened threats to independence for PIEs which may be another way to articulate the rationale.

- Mixed views on the benefits and potential unintended consequence of requiring more transparency where the PIE independence requirements have been applied. The discussion noted the benefits to transparency, however also highlighted that those benefits are constrained to what users will readily understand. The Board agreed that it would be useful to obtain broader outreach on this new proposal to inform the development of a submission.
- A need for clarity and consistency around the broader reference to financial condition and then a focus on financial statements
- Discussion as to whether the proposed factors to be considered in identifying whether an entity is a PIE have been broadened in the New Zealand context (e.g., consideration of public utility companies) and the need to explore any concerns arising with stakeholders.
- Agreement that the list of the types of entities covered by the IESBA proposals will bring the international Code more in line with the current New Zealand PIE definition and that the current New Zealand approach remains broader.

The Board agreed to seek broader stakeholder views to inform the development of a submission. However, the Board stressed the importance of making it clear to stakeholders that the NZAuASB does not intend to adopt the IESBA list of entities as proposed, rather to use the opportunity to explore any issues with the current New Zealand definition that includes all entities that are required to report using tier 1 reporting standards, i.e., are unable to opt to report using tier 2 or other reporting standards, to determine if any change is needed. The NZAuASB will develop a New Zealand exposure draft once the IESBA has finalized the international definition.

5. Quality Management

The Board CONSIDERED the draft invitation to comment (ITC) and the quality management exposure drafts.

The Board suggested some editorial changes and redrafting around the discussion of the public sector paragraphs in the ITC. The Board REQUESTED that staff consult with the Office of the Auditor-General to determine the appropriate public sector paragraphs to include in the final standard.

The Board APPROVED issuance of the ITC and exposure drafts subject to the requested amendments. The changes to the ITC are to be reviewed by the Chair.

6. Objectivity of the Engagement Quality Reviewer

The Deputy Chair chaired this discussion given the declaration of interest of the Chair on this topic.

The Board NOTED the revisions to the IESBA Code to address objectivity of the engagement quality reviewer.

The Board DISCUSSED a change to the IESBA Code being considered by the APESB to include the cooling off period of two years established in ISQM 2 in the Code. The Board's view is that the Code sufficiently addresses the cooling off period. There is, however, some potential for confusion about how the objectivity provisions interact with the application of the long association provisions when the practitioner serves in a combination of roles. Some FAQs could be useful to address this confusion.

The Board will consider a final standard following consultation on the quality management standards.

7. Strategic Action Implementation Plan

The Board NOTED the half yearly update of the specific actions undertaken against the planned actions for the 2020/21 implementation plan for the 6 months to December 2020.

The Board raised no concerns about the progress to date but is keen to progress the development of the New Zealand standard on capital fundraising and the engagement standard on small not-for-profits. These local projects have been delayed due to time and resource constraints and other priorities, such as the impact of Covid-19 and the international standard work plan.

8. Modified Audit Reports

The Deputy NOTED the summary of modified audit reports received by the XRB between 23 November 2019 and 31 December 2020.

9. Environmental Scanning

The Board NOTED the international and domestic updates.

NON-PUBLIC SESSION – AGENDA ITEM 10

The Board moved out of public session.