

Auditing Standards Reference Group Discussion on topics for IAASB September 2022

7 September 2022

Apologies: Darby Healey, Kerry Price, Glenn Waterhouse, Misha Pieters, Lisa Thomas, Tracey Crookston

Discussion 1: Going Concern (IAASB Agenda Item 7)

Objective: to obtain IAASB input on the task force's proposals addressing selected topics on going concern in an audit of financial statements.

- Paragraph references refer to agenda item 7A
- Para 9A, definition of MURGC – agreed with definition
- Restructured requirements to create stronger link with ISA 315.
concern that there is a significant amount more work in engagements where going concern is not an issue. Is the response proportional to the risk? Seems to be adding a lot of paperwork to achieve the same result.
As drafted, this is driving the auditor to document. Going concern procedures should be focussed on bringing knowledge together to focus on the risk.
- Management's assessment – the auditing standards put requirements on management that are not required in the accounting standard. Need to match up the requirements with the accounting standards. Stealth mode. Question whether auditing standard should allow alignment with the accounting standard.
- Period of assessment – should align with the business cycle.
- 16(a)(ii) any calculations (add "any")
- 16C. Practically, working through this, it's rare that management's plans make any difference. Generally there is uncertainty about the ability of management to carry out the plan. Very hard to assess practically. In this situation, it's often difficult to get evidence.
- 21A if management is not required to make a statement, why does the auditor? Seems to have over-reached in terms of auditor responsibilities compared with management. Auditor is being asked to report on matters that management is not required to make a statement on.
- 21B Putting something in the GC section that is not a problem. Will push auditors to go down the material uncertainty route rather than justify why they do not believe that there is not a going concern issue.
- A lot of the application material added to align with 315 is unnecessary.
- Agenda item 7, picture, doesn't address the issue where you can't get enough evidence?

Discussion 2: Fraud (IAASB Agenda Item 6)

Objectives: Obtain IAASB input on the Task Force's views and recommendations on the way forward in relation to transparency in the auditor's report on fraud, and drafting with respect to the sections in proposed ISA 240 that refer to or expand on ISA 315 (Revised 2019)

- Transparency – TRG members were generally not supportive of the TF proposals to address transparency. Anything that is caught should generally be a KAM, if it's a significant risk.
- Have a problem with the inequity of what the auditor is required to do and what management is required to do. Will lead to arguments with Boards. UK approach of

management's assessment is a far better approach. Should be something that is driven by regulators.

- Concern as to increased cost of audit. Do investors realise what the cost of this will be?
- Consider that proposals should be restricted to listed entities. Questions about the application of this in NZ - to FMC reporting entities? Would capture many small entities.
- A question was also raised about the requirement to treat any risk of material misstatement due to fraud as a significant risk – this might incentivise teams toward not identifying a ROMM as a significant risk.

Discussion 3: Sustainability (IAASB Agenda Item 4)

Objectives: Obtain the IAASB's input on:

- *The draft project proposal*
- *The overall structure for an overarching standard for assurance on sustainability reporting*
- *Initial proposals regarding the defined terms*
- *The approach to developing the requirements*

The TRG provided the following comments on the selected topics:

Agenda Item 4-A (Project Proposal):

- No comments on project proposal
- Priority areas unchanged from previous version
- Agree with approach

Agenda item 4-B (Draft Structure):

- Agree with draft structure for the requirements

Agenda Item 4-C (Defined Terms):

- Agreement with defined terms; wanting consistency across the suite of standards (engagement partner definition)

Agenda Item 4-D (Approach to the requirements):

- Agree with the approach

Other comments:

- Big area of interest is whether there will be minimum capability/competence required?
- No concerns about establishing a new series.

Discussion 4: Audit Evidence (IAASB Agenda Item 2)

Objectives: To approve the exposure draft of proposed ISA 500 and related conforming and consequential amendments.

- Fatal flaw review. TRG agreement with the proposals.

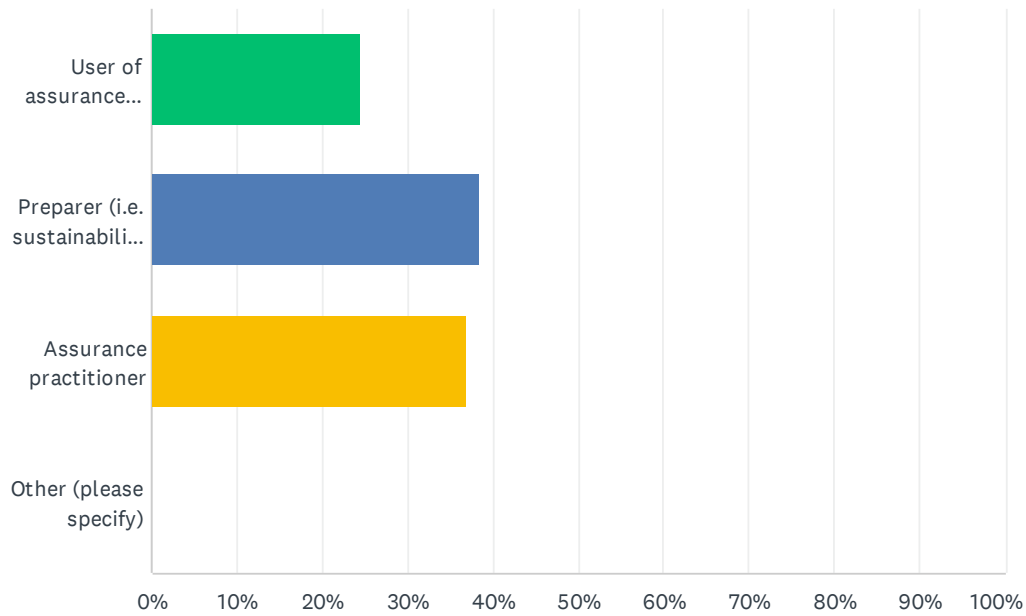
Discussion 5: *Audits of LCEs (IAASB Agenda Item 5)*

Objectives: Obtain the Board's input on the:

- *Drafting with respect to the authority and audits of group financial statements*
 - *Views and recommendations on the way forward in relation to selected topics.*
-
- Agenda item 5A, para A3, consider scale has nothing to do with complexity. Still seems to be a lot of judgement involved in determining what engagements this standard can be used on. Consider a simple engagement standard should be applied to a simple accounting framework.
 - Don't like the idea switching between the LCE standard and full ISAs on a year-by-year basis.
 - Concern about regulator/third party reviewer differences of opinion as to application of the standard.
 - Task force has not responded to requests for clarity on who this standard applies to.
 - Use of component auditors adds complexity to an engagement. Consider that group engagements that require use of component auditors should not be within the scope of the LCE standard.

Q1 What is your role?

Answered: 65 Skipped: 1

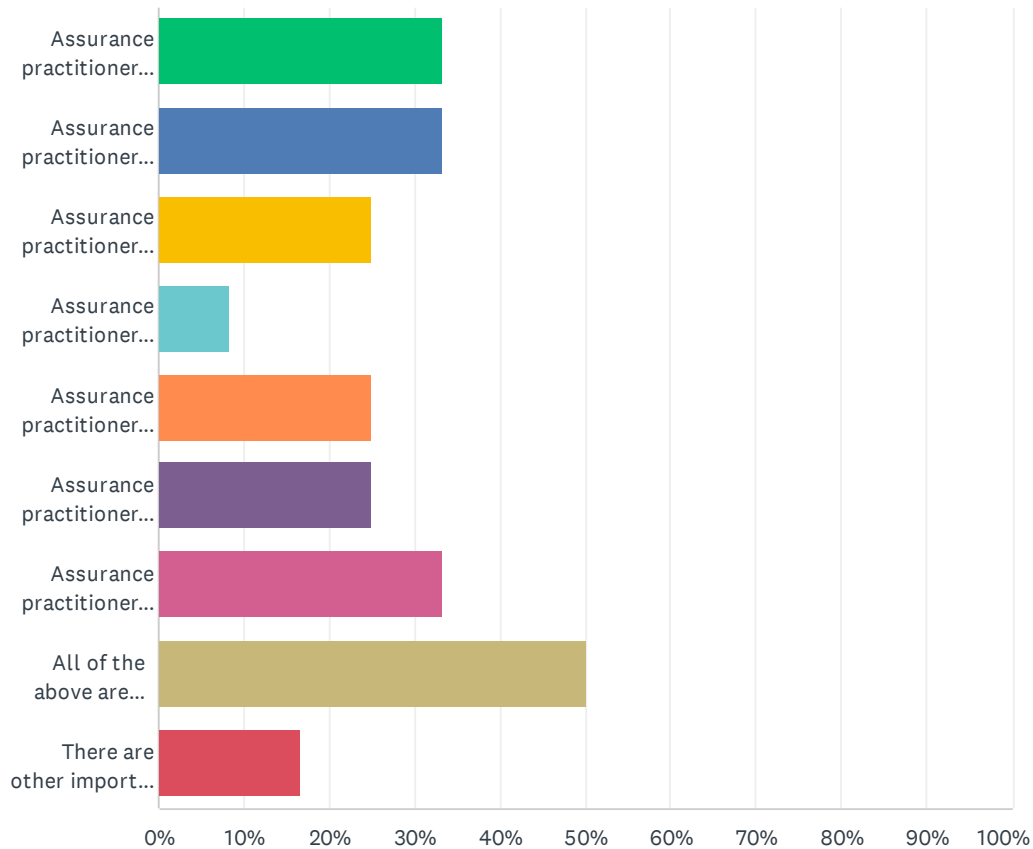


ANSWER CHOICES	RESPONSES	
User of assurance reports (i.e. investor or other stakeholder)	24.62%	16
Preparer (i.e. sustainability professional, management, director)	38.46%	25
Assurance practitioner	36.92%	24
Other (please specify)	0.00%	0
TOTAL		65

#	OTHER (PLEASE SPECIFY)	DATE
	There are no responses.	

Q2 What are the top three matters that would reduce the trust and confidence you place in the assurance report and the GHG disclosures included in the climate statements?

Answered: 12 Skipped: 54



ANSWER CHOICES	RESPONSES
Assurance practitioner is not independent from the entity disclosing GHG emissions	33.33% 4
Assurance practitioner helps the entity to measure GHG emissions	33.33% 4
Assurance practitioner helps the entity to disclose GHG emissions	25.00% 3
Assurance practitioner advises the entity on GHG matters	8.33% 1
Assurance practitioner has financial interests in the entity disclosing GHG emissions	25.00% 3
Assurance practitioner does not have quality processes in place that relate to GHG emissions assurance	25.00% 3
Assurance practitioner does not have sufficient expertise in GHG emissions measurement or reporting	33.33% 4
All of the above are extremely important to maintain trust and confidence in GHG assurance reports	50.00% 6
There are other important matters (please specify below)	16.67% 2
Total Respondents: 12	

#	THERE ARE OTHER IMPORTANT MATTERS (PLEASE SPECIFY BELOW)	DATE
1	I would not trust assurance providers who are not held to the same ethical and professional standards as current member firms of the CA profession. There should only be one, strict ethical standard by which all practitioners should operate.	9/30/2022 6:31 PM
2	Should also include oversight and regulatory processes to ensure the assurance environment is robust and there is clear accountability, similar to the financial reporting oversight regime. Should also have a set of competency requirements, starting with a minimum requirement for self-assessment but we envisage in due course, this will move to an external assessment model akin to Licensed and Qualified Auditors.	9/30/2022 1:55 PM

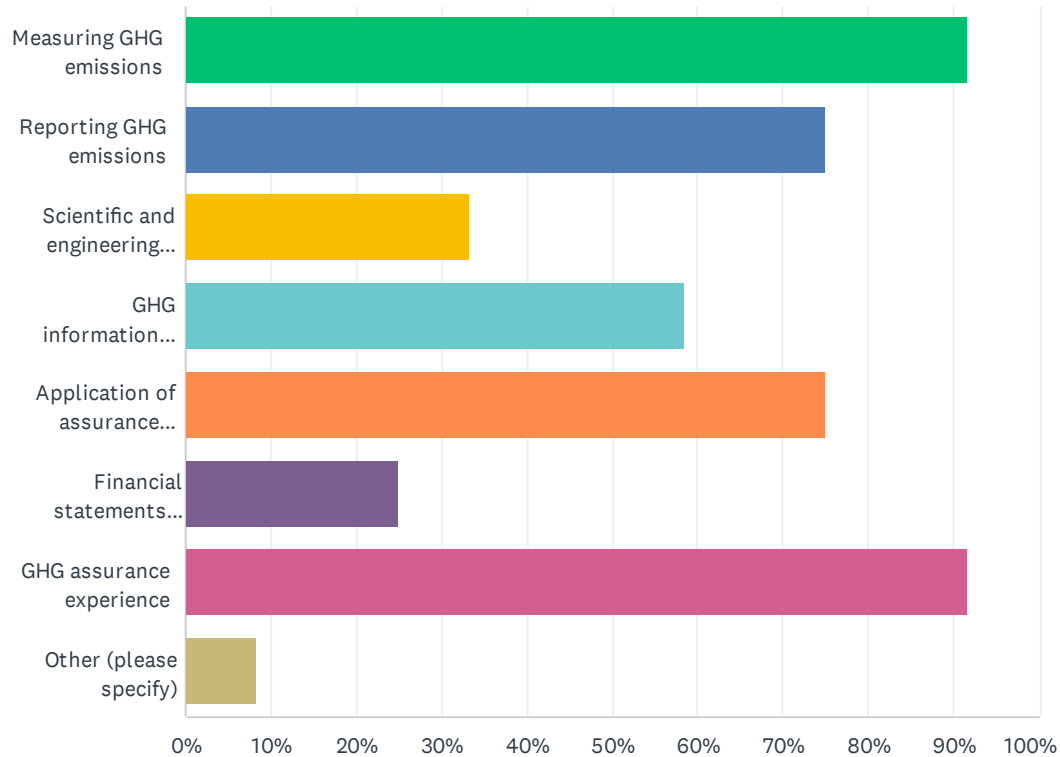
Q3 What matters do you consider have the greatest impact on the assurance practitioner's ability to be independent when engaged to assure GHG disclosures?

Answered: 12 Skipped: 54

#	RESPONSES	DATE
1	Not having a contingent fee structure.	9/30/2022 6:31 PM
2	Given GHG Assurance may be undertaken by assurance practitioners from different professions including those from outside the accounting profession, it is important to establish independence requirements based on the accounting profession's Code of Ethics and supporting education and training that applies equally to all practitioners. There should also be checks and balances in place to ensure the independence requirements are adhered to. A process should be set up to collect feedback during transition to the new assurance standard to address teething issues. Similar to the ISQM standards, this is not a "set-and-forget" standard. XRB should monitor, evaluate and rectify issues on a timely basis.	9/30/2022 1:55 PM
3	Adhering to professional independence standards	9/30/2022 11:54 AM
4	The ability to engage an appropriately qualified expert	9/28/2022 9:24 AM
5	Having a financial interest in the entity	9/26/2022 7:03 PM
6	Assurance practitioner helps the entity to measure GHG emissions	9/23/2022 2:28 PM
7	Capability	9/22/2022 4:13 PM
8	financial interest and level of reliance on other work from entity providing assurance on.	9/19/2022 4:47 PM
9	Answered above	9/16/2022 3:56 PM
10	The assurance practitioners need to understand the rules.	9/15/2022 12:26 PM
11	No financial link to the CRE beyond the assurance practice, i.e. no consulting, advise, ownership etc. The assurance providers also need to have the capability to do this and I am not convinced the industry in New Zealand generally has this. The assurance provider should disclose evidence of their capabilities in this space.	9/15/2022 10:48 AM
12	That he does not have a financial interest in the entitymaking the GHG disclosures.	9/15/2022 10:37 AM

Q4 What competencies and expertise would you expect from those who provide assurance over the GHG disclosures?

Answered: 12 Skipped: 54

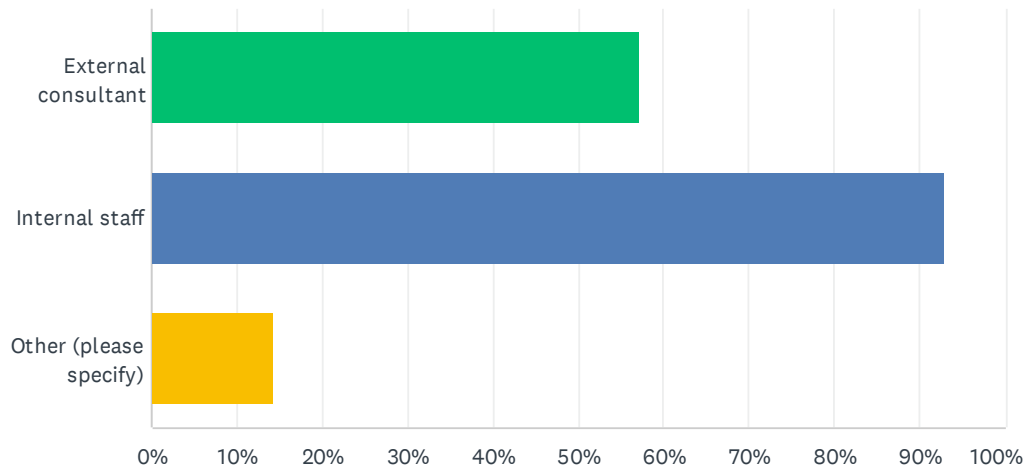


ANSWER CHOICES	RESPONSES	
Measuring GHG emissions	91.67%	11
Reporting GHG emissions	75.00%	9
Scientific and engineering expertise	33.33%	4
GHG information systems expertise	58.33%	7
Application of assurance methods and techniques	75.00%	9
Financial statements audit experience	25.00%	3
GHG assurance experience	91.67%	11
Other (please specify)	8.33%	1
Total Respondents: 12		

#	OTHER (PLEASE SPECIFY)	DATE
1	Multi-disciplinary assurance team may be necessary to ensure those with assurance knowledge, climate expertise and associated professions contribute to the assurance engagement. This will also assist with cross-pollination of knowledge and experience.	9/30/2022 1:55 PM

Q5 Who will help you prepare your GHG disclosures?

Answered: 14 Skipped: 52



ANSWER CHOICES	RESPONSES
External consultant	57.14% 8
Internal staff	92.86% 13
Other (please specify)	14.29% 2
Total Respondents: 14	

#	OTHER (PLEASE SPECIFY)	DATE
1	Will use third party reporting to prepare	9/28/2022 11:23 AM
2	I work for a consultant firm and would support organisations with their reports.	9/22/2022 3:54 PM

Q6 What competencies and expertise do you consider necessary for those who prepare GHG disclosures?

Answered: 14 Skipped: 52

#	RESPONSES	DATE
1	An understanding of preparing disclosures that align with standards - for example accountants/legal/risk staff and an existing professional qualification would make sense. In future, if there was a GHG disclosures qualification that could be obtained by completing a course, this would be helpful in upskilling and giving credibility/trust to preparers. An online course taken over a few months for example could be sufficient.	9/28/2022 11:23 AM
2	Have knowledge of the disclosure requirements, organization's climate change risk and control matrix, the capability to develop the appropriate indicator and measurement to present in the disclosure	9/27/2022 11:16 PM
3	Subject matter expertise (science background) Reporting background Risk and legal backgrounds would also be favourable	9/25/2022 3:39 PM
4	Ideally someone with experience	9/22/2022 5:34 PM
5	Good understanding of the GHG Protocol, PCAF and other GHG accounting frameworks. Understanding of the methodological details and how they should be included for transparency and comparability.	9/22/2022 3:54 PM
6	Scientific background Highly skilled in understanding how GHG's are measured A good understanding of the depth and breadth of an organisation's operations The ability to communicate with highly technical and scientific specialists as well as people with little understanding of emissions	9/22/2022 3:19 PM
7	Construct systems that robustly and reliably captures GHG data across the various scopes. Able to reliably present GHG data in a way that stakeholders understand. Able to articulate key movements in a given period in narrative form to give context to the numbers. Aligning GHG outcomes to initiatives and / or strategy via a strong narrative.	9/22/2022 1:55 PM
8	Ability to collaborate and translate between financial and technical.	9/22/2022 12:42 PM
9	Detailed understanding of the relevant requirements of the Metrics & Targets section of NZ CS 1	9/14/2022 4:54 PM
10	Quantitative data analysis skills Understanding of GHG disclosure requirements Background in environmental management/science	9/14/2022 8:32 AM
11	Good understanding of business operations Good attention to detail Appreciation of how to apply technical standards	9/13/2022 9:00 PM
12	Internal staff require attention to detail and a good understanding of the company and the emission sources. External consultants should be very knowledgeable in relation to current legislation and/or guidance on GHG disclosures.	9/13/2022 5:10 PM
13	Appropriate professional and academic qualifications	9/13/2022 5:02 PM
14	Financial Reporting expertise Understanding of emissions / Metrics Reporting	9/13/2022 4:23 PM

Q7 Who do you expect to engage to provide assurance over your GHG disclosures and why?

Answered: 14 Skipped: 52

#	RESPONSES	DATE
1	Would likely use the same auditor we use for our financial statements, unless they do not have the expertise or skills required	9/28/2022 11:23 AM
2	Internal auditor to provide regular review and other advisory, external auditor to provide periodical independent review	9/27/2022 11:16 PM
3	Existing financial statement auditors - efficiencies and ensuring no conflicts with having an the same independent assurance provider	9/25/2022 3:39 PM
4	External audit firm	9/22/2022 5:34 PM
5	All reporting entities. I suspect many organisations will seek assurance over their climate related disclosure within which GHG emissions will be reported. Why, business leaders will want to know that the numbers and climate related information is accurate.	9/22/2022 3:54 PM
6	We would ideally like to engage with experts like Toitū Envirocare, but are unsure whether we will have to engage with our current auditor instead i.e. the Office of the Auditor General/Audit New Zealand.	9/22/2022 3:19 PM
7	No expectations at this stage. I'd be happy to see professional service firm options outside of the audit industry. Audit firms are currently struggling to complete financial audits - widening their scope won't help them.	9/22/2022 1:55 PM
8	a recognised expert. because our external auditors need someone credible so they can provide assurance.	9/22/2022 12:42 PM
9	Subject to any conditions imposed by the pending assurance standard, we currently anticipate using our 'Big 4' auditor	9/14/2022 4:54 PM
10	Toitu Envirocare, as we have an existing relationship with them	9/14/2022 8:32 AM
11	Deloitte or similar with international reputation and experienced staff and necessary capacity to meet tight timeframes	9/13/2022 9:00 PM
12	This year Deloitte provided limited assurance over our GHG inventory report	9/13/2022 5:10 PM
13	External consultants - why? we have assessed their capability and track record as appropriate	9/13/2022 5:02 PM
14	Unsure - Still working on this component	9/13/2022 4:23 PM

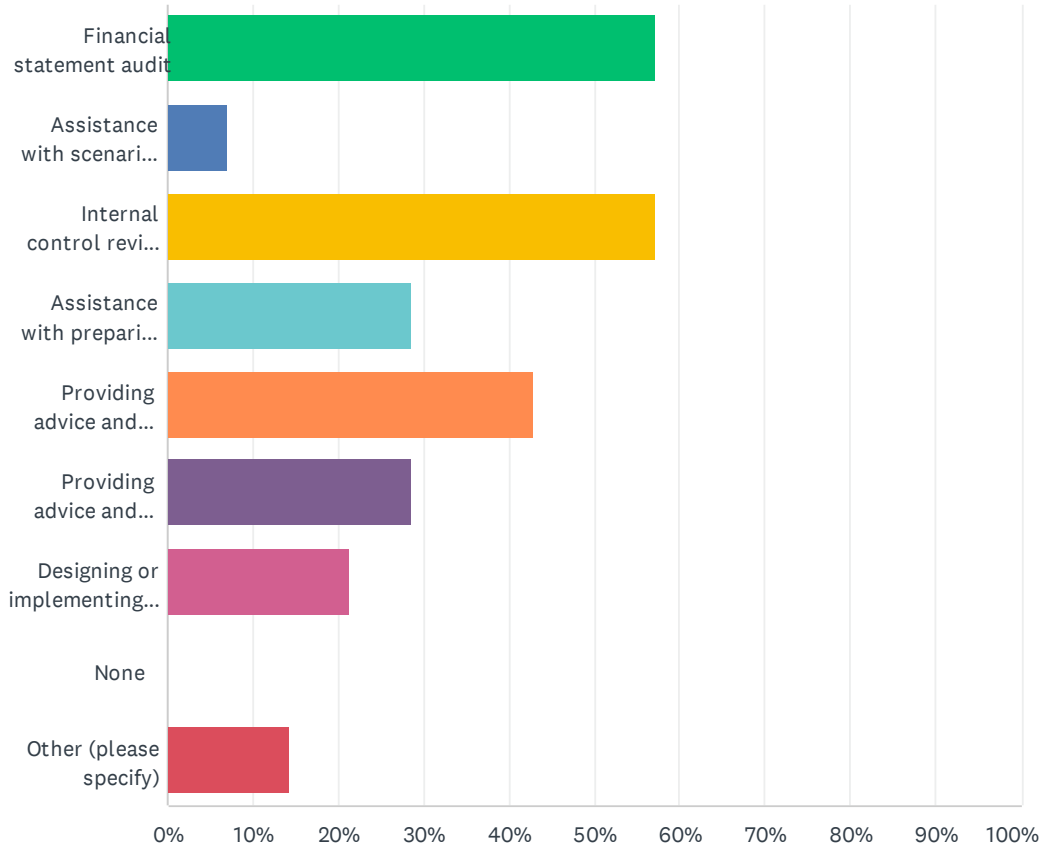
Q8 What competencies and expertise would you expect from those who will provide assurance over your GHG disclosures?

Answered: 14 Skipped: 52

#	RESPONSES	DATE
1	The same as those noted in question 3	9/28/2022 11:23 AM
2	Tailored and structured procedures to lead the review	9/27/2022 11:16 PM
3	Subject matter expertise (science background) Reporting background	9/25/2022 3:39 PM
4	Someone with ability and experience in reviewing internal controls and checking evidence	9/22/2022 5:34 PM
5	GHG accounting, financial accounting and financial assurance expertise/experience.	9/22/2022 3:54 PM
6	The same as preparers of GHG disclosures. They should have a very strong scientific background, but also understand materiality.	9/22/2022 3:19 PM
7	Review the robustness of the data captured and how it has been classified. Ability to support the correct adoption of CRD standards.	9/22/2022 1:55 PM
8	experience. accreditation or recognition by auditors.	9/22/2022 12:42 PM
9	Demonstrable prior experience in providing similar assurance	9/14/2022 4:54 PM
10	Environmental management specialist Using an internationally recognised standard that is defensible in other markets Familiarity with the NZ business sustainability environment	9/14/2022 8:32 AM
11	Good understanding of standards and latest guidance Experience in GHG assurance Good project management skills	9/13/2022 9:00 PM
12	Experience auditing similar calculations, knowledge of the relevant framework/disclosure guidance	9/13/2022 5:10 PM
13	Appropriate professional and academic qualifications	9/13/2022 5:02 PM
14	Guidance on how to measure impact.	9/13/2022 4:23 PM

Q9 What services other than assurance on your GHG disclosures might you ask your assurance practitioner to provide?

Answered: 14 Skipped: 52



ANSWER CHOICES	RESPONSES	
Financial statement audit	57.14%	8
Assistance with scenario analysis	7.14%	1
Internal control reviews of emission quantification processes	57.14%	8
Assistance with preparing GHG disclosures	28.57%	4
Providing advice and recommendations related to the GHG information	42.86%	6
Providing advice and recommendations related to other climate related information	28.57%	4
Designing or implementing GHG measurement or reporting software	21.43%	3
None	0.00%	0
Other (please specify)	14.29%	2
Total Respondents: 14		

#	OTHER (PLEASE SPECIFY)	DATE
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1	Gap analysis, review, maturity and readiness assessment	9/22/2022 3:54 PM
2	Training for sustainability teams	9/22/2022 1:55 PM

Q10 What potential conflicts of interest do you consider might arise from your assurance practitioner providing these services?

Answered: 14 Skipped: 52

#	RESPONSES	DATE
1	I do not see a conflict with the auditor giving an opinion on financial statements and GHG emissions. However, if they have been involved in preparing the emissions, this would create conflicts.	9/28/2022 11:23 AM
2	As long as it does not hamper the auditor's independence, I don't see the potential conflict of interest.	9/27/2022 11:16 PM
3	No conflicts with those selected	9/25/2022 3:39 PM
4	Need to have separation of the preparation of information and design of systems to collate information and the assurance function	9/22/2022 5:34 PM
5	Conflict of interest may arise where the assurance practitioner is also involved in the establishment, development and/or management of a GHG inventory.	9/22/2022 3:54 PM
6	There might be an issue with independence, however, if the advice and recommendations were framed appropriately, the independence could be maintained.	9/22/2022 3:19 PM
7	None	9/22/2022 1:55 PM
8	some potential conflicts which is why I'm thinking they should focus on areas that confirm or challenge./	9/22/2022 12:42 PM
9	Effecting advice and recommendations received could at a stretch be construed as 'marking ones own work') by the assurance practitioner	9/14/2022 4:54 PM
10	Independence - where assurance practitioners provide internal GHG preparation assistance, take should be taken that these assurance practitioners do not end up auditing their own work	9/14/2022 8:32 AM
11	We would ensure don't get in situation of conflict of interest. For example, if went with software connected to them would need to select another auditor.	9/13/2022 9:00 PM
12	The assurance provider should not be able to assist with any advice or consulting in relation to the GHG disclosure	9/13/2022 5:10 PM
13	So far none	9/13/2022 5:02 PM
14	This is an area that will need to be managed. They are pushing for higher levels of consultancy.	9/13/2022 4:23 PM

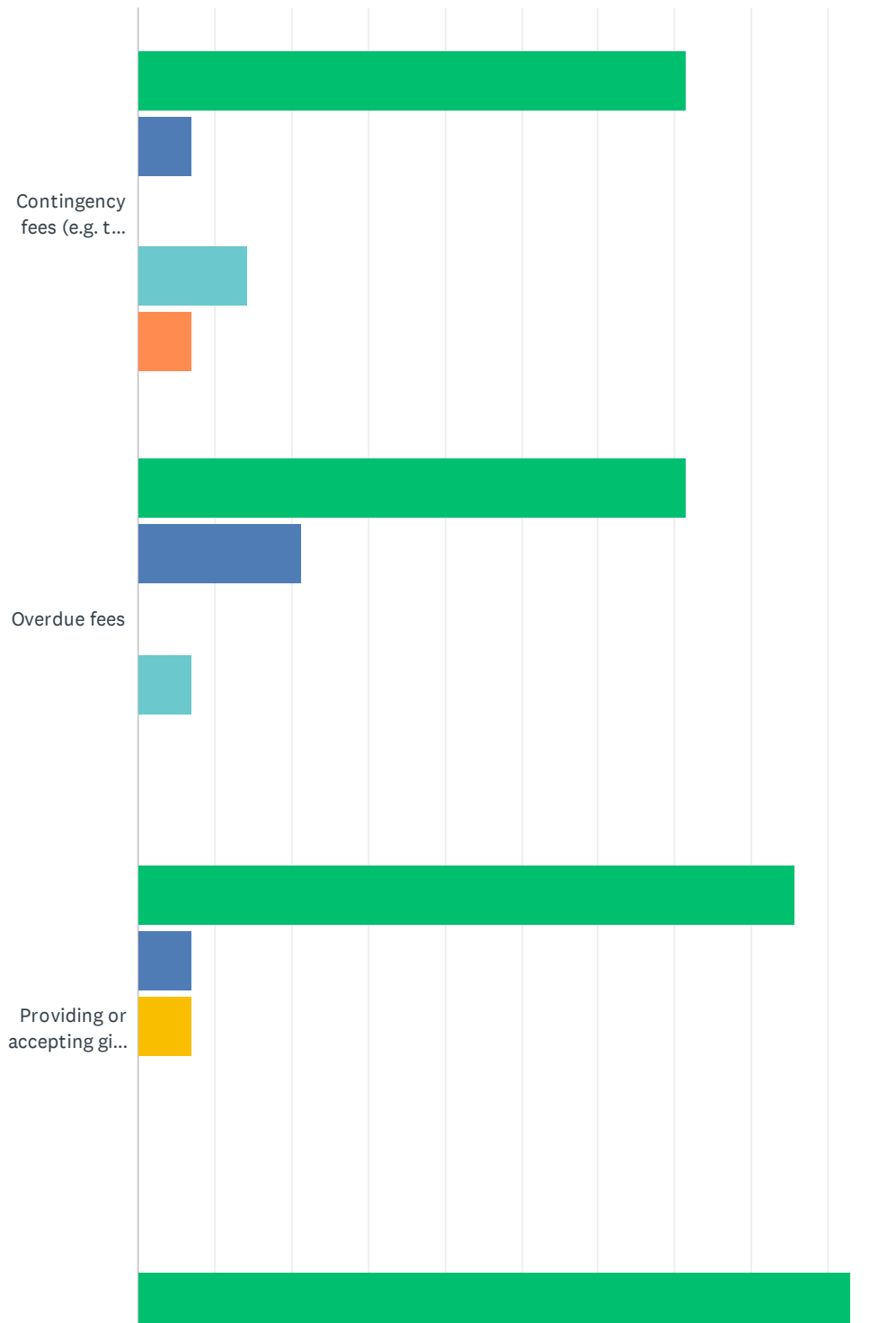
Q11 What, if any, challenges do you anticipate in relation to obtaining assurance over your GHG disclosures?

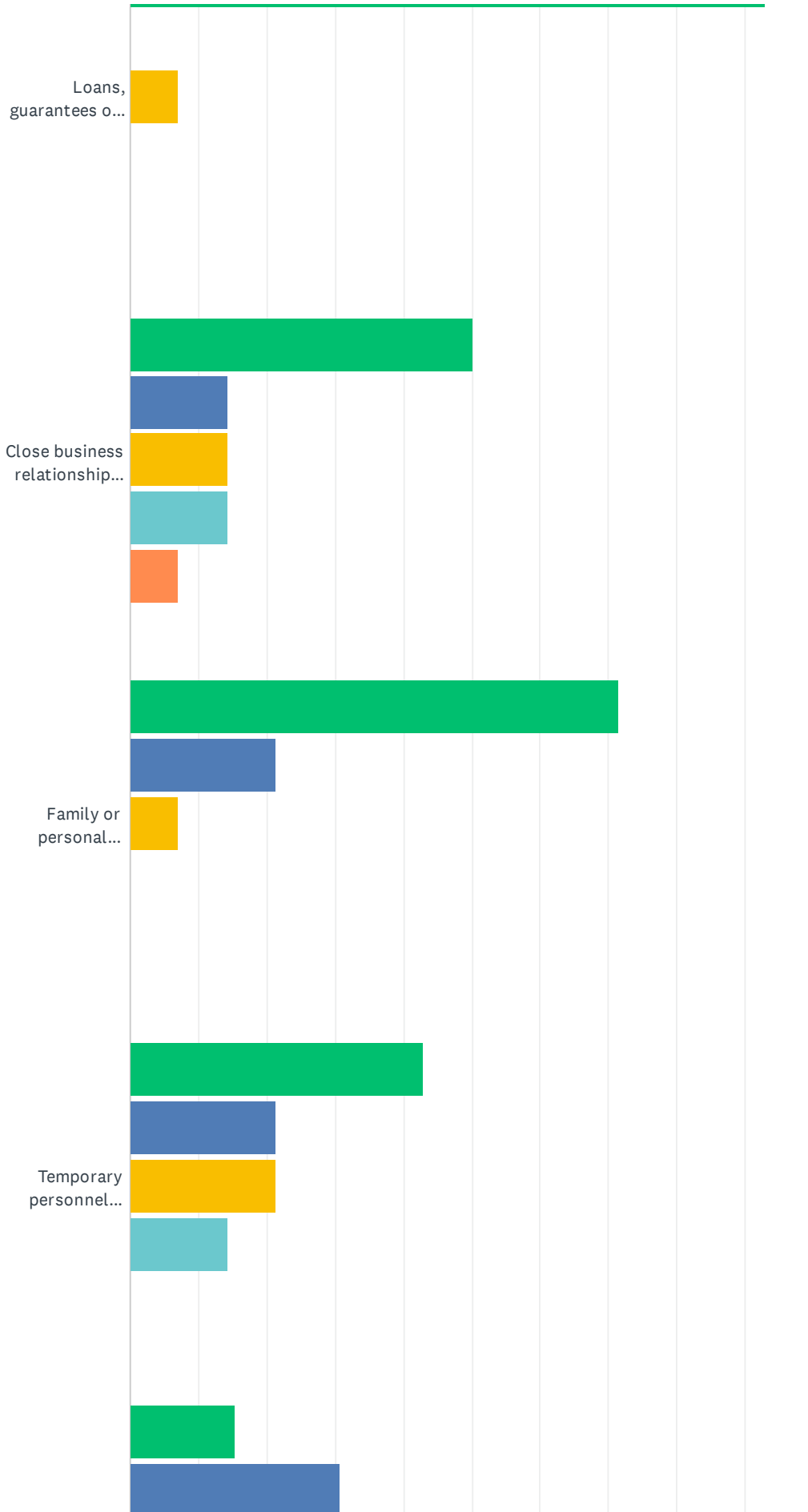
Answered: 14 Skipped: 52

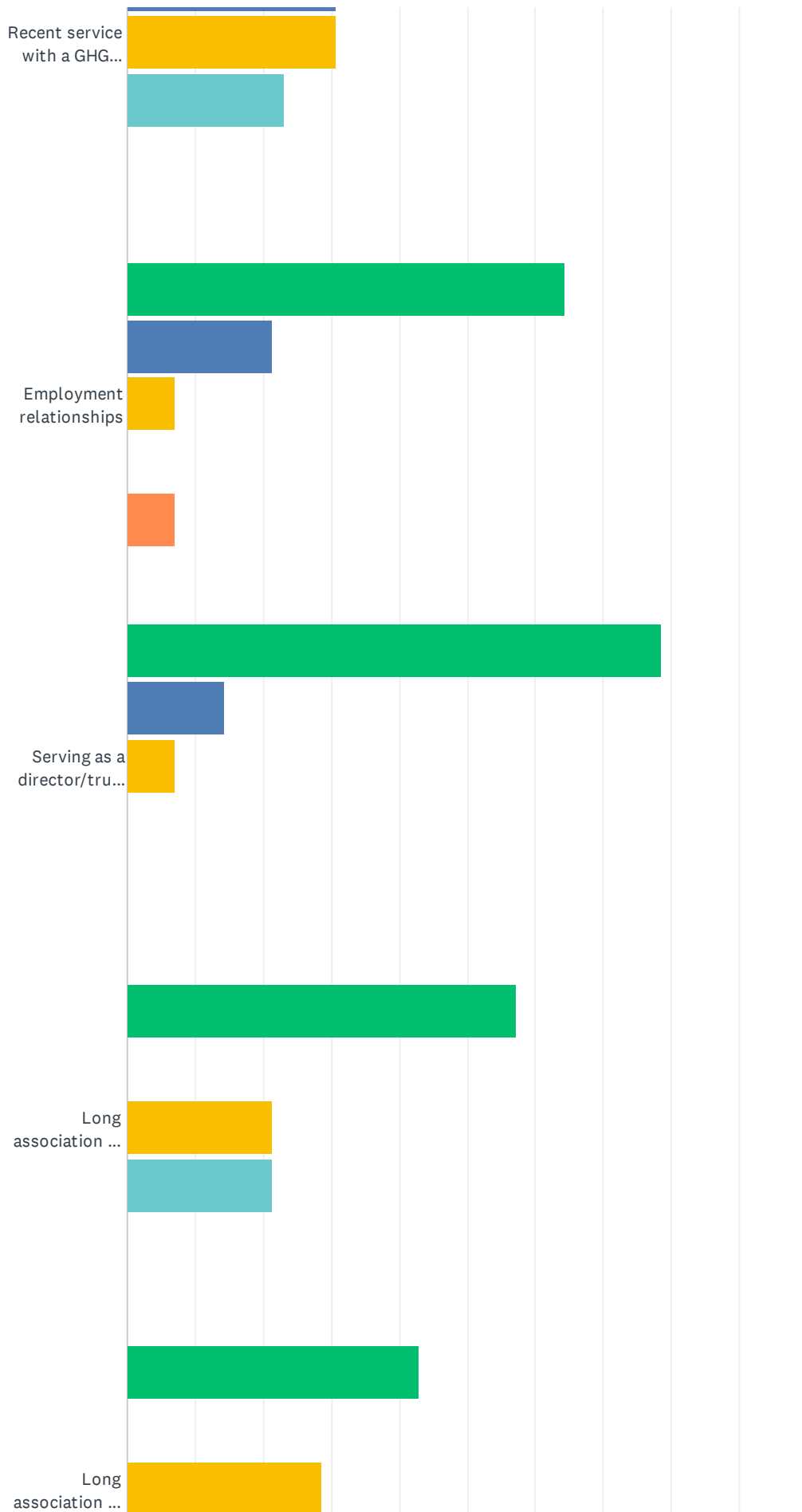
#	RESPONSES	DATE
1	There may be challenges in the capability/capacity of assurance providers. There may also be challenges due to data coverage issues.	9/28/2022 11:23 AM
2	Unclear linkage between the target, route and result assessment tool, unverified methodology, poor data quality	9/27/2022 11:16 PM
3	Challenges regarding 'materiality' of scope 3 emissions	9/25/2022 3:39 PM
4	Capacity and capability in the market to support this	9/22/2022 5:34 PM
5	Some organisations may struggle with obtaining assurance over the full scope 3 value chain emissions set over the next few years, but this should change as organisations build their capability/maturity. Many organisations may also struggle with demonstrating evidence both for the inclusion and exclusion of metrics. Particularly if they do not have a clear understanding of the why. On the other hand, some organisations may have ambitious reporting goals but not the corresponding data quality, and may have to reduce the scope of the assurance engagement.	9/22/2022 3:54 PM
6	We expect that the auditor general's appointed auditors will be expected to provide assurance to government-related entities. Many of those audit firms will not have the skills or expertise to carry out the audit, and due to a lack of scientific background, are likely to develop an inefficient methodology for auditing GHGs, based on financial statement audit methodology.	9/22/2022 3:19 PM
7	Not sure	9/22/2022 1:55 PM
8	lack of precedent. Time required. Ability of auditor to rely on a small pool of recognised experts.	9/22/2022 12:42 PM
9	Prior understanding of what information (nature of, level of detail etc.) the assurance practitioner will require	9/14/2022 4:54 PM
10	Interpretation of standards - alignment between our internal understanding of a specific area, and that of the external assurance provider.	9/14/2022 8:32 AM
11	Having time to pull all information together in tight timeframe	9/13/2022 9:00 PM
12	No challenges, it was fine. There would be more challenges if we moved from limited to reasonable assurance	9/13/2022 5:10 PM
13	Auditing these disclosures could require significant time and effort and traditional audit firms are not up to speed with either experience or qualifications in this area.	9/13/2022 5:02 PM
14	This is new and a significant change. Policy not yet approved, yet expected to follow and be able to report from 1 April.	9/13/2022 4:23 PM

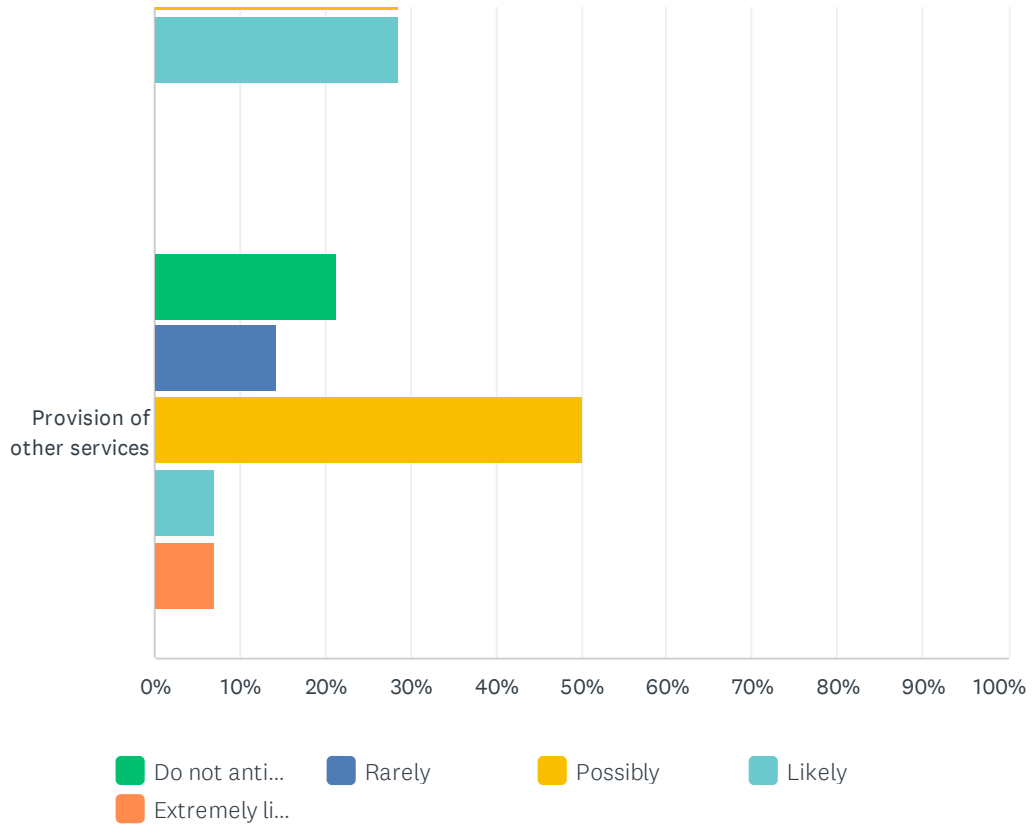
Q12 How likely do you consider the following circumstances to be when engaging a GHG assurance practitioner? We will consider developing specific requirements or application guidance in the most common areas so that threats to independence can be consistently identified and addressed by assurance practitioners.

Answered: 14 Skipped: 52





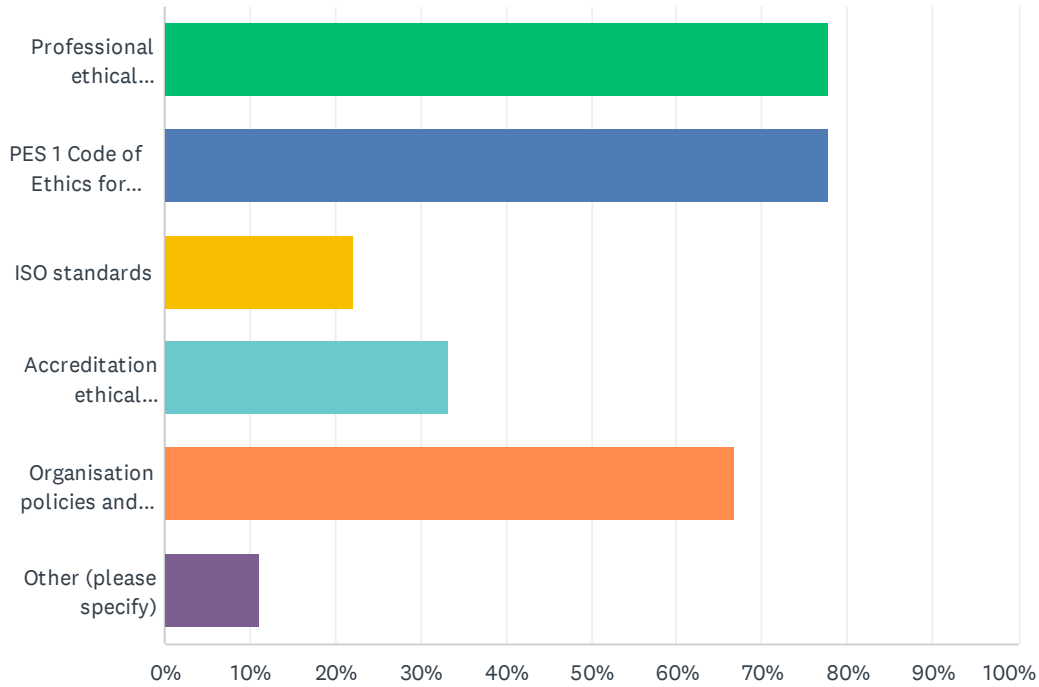




	DO NOT ANTICIPATE THIS ARISING FOR GHG ASSURANCE	RARELY	POSSIBLY	LIKELY	EXTREMELY LIKELY	TOTAL	WEIGHTED AVERAGE
Contingency fees (e.g. the fee is calculated on a predetermined basis based on the outcome or result of the service)	71.43% 10	7.14% 1	0.00% 0	14.29% 2	7.14% 1	14	1.79
Overdue fees	71.43% 10	21.43% 3	0.00% 0	7.14% 1	0.00% 0	14	1.43
Providing or accepting gifts or hospitality	85.71% 12	7.14% 1	7.14% 1	0.00% 0	0.00% 0	14	1.21
Loans, guarantees or other financial interests	92.86% 13	0.00% 0	7.14% 1	0.00% 0	0.00% 0	14	1.14
Close business relationships between assurance practitioner and the client (e.g. combining services of the assurance organisation and the client)	50.00% 7	14.29% 2	14.29% 2	14.29% 2	7.14% 1	14	2.14
Family or personal relationships between assurance practitioner and the client	71.43% 10	21.43% 3	7.14% 1	0.00% 0	0.00% 0	14	1.36
Temporary personnel assignment	42.86% 6	21.43% 3	21.43% 3	14.29% 2	0.00% 0	14	2.07
Recent service with a GHG assurance client	15.38% 2	30.77% 4	30.77% 4	23.08% 3	0.00% 0	13	2.62
Employment relationships	64.29% 9	21.43% 3	7.14% 1	0.00% 0	7.14% 1	14	1.64
Serving as a director/trustee/officer of a GHG assurance client	78.57% 11	14.29% 2	7.14% 1	0.00% 0	0.00% 0	14	1.29
Long association of personnel with a GHG assurance client	57.14% 8	0.00% 0	21.43% 3	21.43% 3	0.00% 0	14	2.07
Long association of engagement leader with the GHG assurance client	42.86% 6	0.00% 0	28.57% 4	28.57% 4	0.00% 0	14	2.43
Provision of other services	21.43% 3	14.29% 2	50.00% 7	7.14% 1	7.14% 1	14	2.64
#	OTHER (PLEASE SPECIFY)					DATE	
1	I think the combination of financial audit and assurance over GHG/ESG disclosure will happen to a larger extent and think this should be encouraged given that GHG performance and financials should be equally important					9/22/2022 3:54 PM	

Q13 What requirements do you currently apply when considering ethical factors in relation to GHG assurance engagements?

Answered: 9 Skipped: 57



ANSWER CHOICES	RESPONSES
Professional ethical requirements	77.78% 7
PES 1 Code of Ethics for Assurance Practitioners	77.78% 7
ISO standards	22.22% 2
Accreditation ethical requirements	33.33% 3
Organisation policies and procedures	66.67% 6
Other (please specify)	11.11% 1
Total Respondents: 9	

#	OTHER (PLEASE SPECIFY)	DATE
1	Currently do not provide GHG assurance engagements	9/15/2022 12:28 PM

Q14 How do you monitor and enforce compliance with these requirements when providing GHG assurance?

Answered: 9 Skipped: 57

#	RESPONSES	DATE
1	We have strict compliance monitoring procedures for provision of GHG assurance services, and our organisation believes that having these procedures is of critical importance for the practice.	9/30/2022 12:08 PM
2	All assurance engagements are subject to accreditation requirements within the firm - ie it is necessary for those signing opinions to have the necessary qualifications and experience for the role. We have an extensive set of ethics and independence compliance requirements to ensure that independence and objectivity of the opinion being provided.	9/27/2022 4:53 PM
3	Through in depth interviews with management and process owners as well as testing greenhouse gas information against the relevant standards	9/23/2022 3:01 PM
4	Part of large audit firm, so use the same policies/procedures as audit	9/22/2022 1:00 PM
5	Internal quality management systems aligned to PES 3	9/19/2022 11:52 AM
6	Appointment of EQCR on every engagement. Follow global risk assessment, methodology and quality management processes. Allocate specialist resource to engagement to ensure appropriate knowledge and experience is available to the team. Audit Quality Team review of engagement letters and deliverables. Continuous training and upskilling of assurance professionals.	9/15/2022 2:33 PM
7	Currently do not provide GHG assurance engagements. Any monitoring and enforcement would be aligned to all other assurance engagements provided by the firm (internal and external reviews).	9/15/2022 12:28 PM
8	Supervision, monitoring, independent review, team awareness	9/14/2022 12:37 PM
9	We have our own internal review mechanisms in place	9/12/2022 2:56 PM

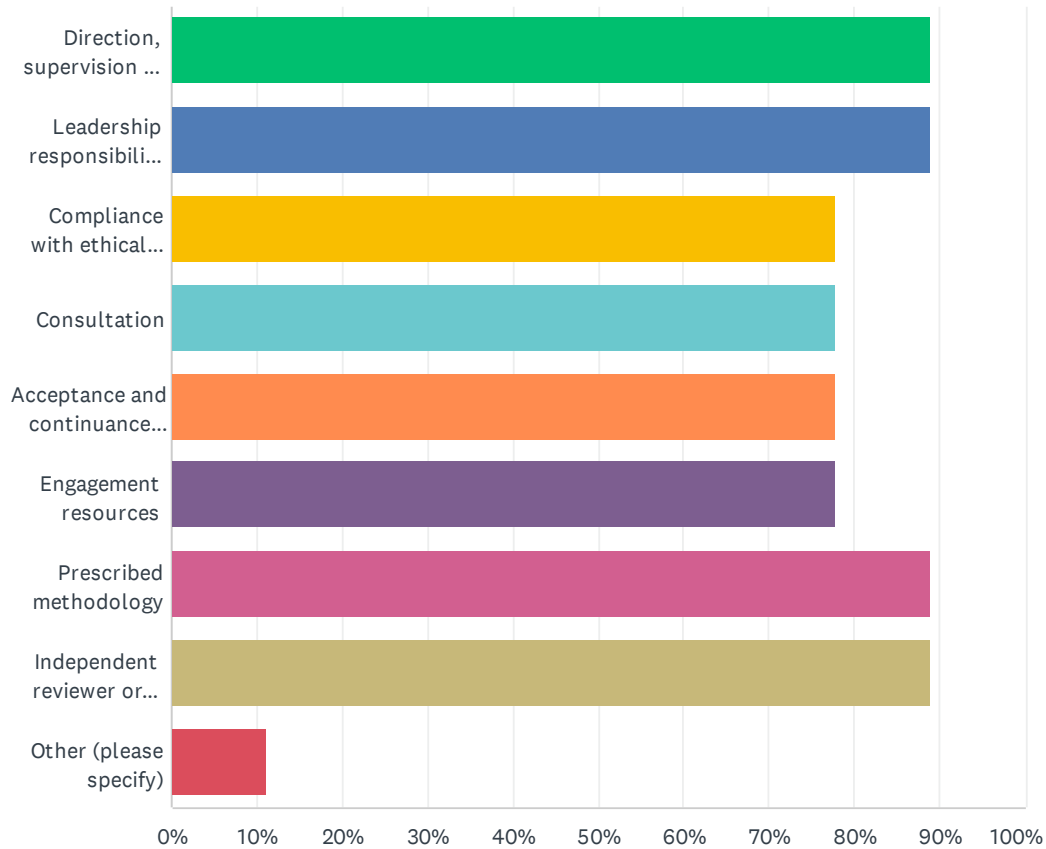
Q15 What processes are in place to monitor relationships or activities that might impair the independence of your organisation or assurance team when providing GHG assurance?

Answered: 9 Skipped: 57

#	RESPONSES	DATE
1	We have a digital system that records, checks and notifies of any relationships or activities that might impair independence. Having a system like this, in our opinion, is of prime importance.	9/30/2022 12:08 PM
2	We have a global independence approval process that performs conflict checking and requires all staff to ensure that they operate within the requirements of the professional and ethical standards.	9/27/2022 4:53 PM
3	Independence assessments are completed prior to each assurance engagement	9/23/2022 3:01 PM
4	Extensive compliance exercises, training, certifications. Audits of partners and staff. All staff sign off in relation to independence on each engagement they are part of the team on. In addition each engagement team undertakes work to ensure organisational independence (eg in relation to other services provided and business relationships)	9/22/2022 1:00 PM
5	Internal quality management systems aligned to PES 3	9/19/2022 11:52 AM
6	We have a global independence and conflict management system through which every engagement must to passed and approved prior to acceptance. We document specific team independence as a mandatory workpaper on every file.	9/15/2022 2:33 PM
7	Currently do not provide GHG assurance engagements. Any monitoring and enforcement would be aligned to all other assurance engagements provided by the firm (internal and external reviews), plus additional confirmation of independence prior to acceptance and continuance along with throughout the engagement.	9/15/2022 12:28 PM
8	Checks/due diligence completed prior to accepting an engagement	9/14/2022 12:37 PM
9	Onus is on each assurance partner taking responsibility for compliance for their engagements	9/12/2022 2:56 PM

Q16 What quality processes do you currently have in place at the engagement level for GHG assurance engagements?

Answered: 9 Skipped: 57



ANSWER CHOICES	RESPONSES
Direction, supervision and review	88.89% 8
Leadership responsibilities for managing and achieving quality	88.89% 8
Compliance with ethical requirements	77.78% 7
Consultation	77.78% 7
Acceptance and continuance requirements	77.78% 7
Engagement resources	77.78% 7
Prescribed methodology	88.89% 8
Independent reviewer or engagement quality review	88.89% 8
Other (please specify)	11.11% 1
Total Respondents: 9	

#	OTHER (PLEASE SPECIFY)	DATE
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1	Currently do not provide GHG assurance engagements	9/15/2022 12:28 PM
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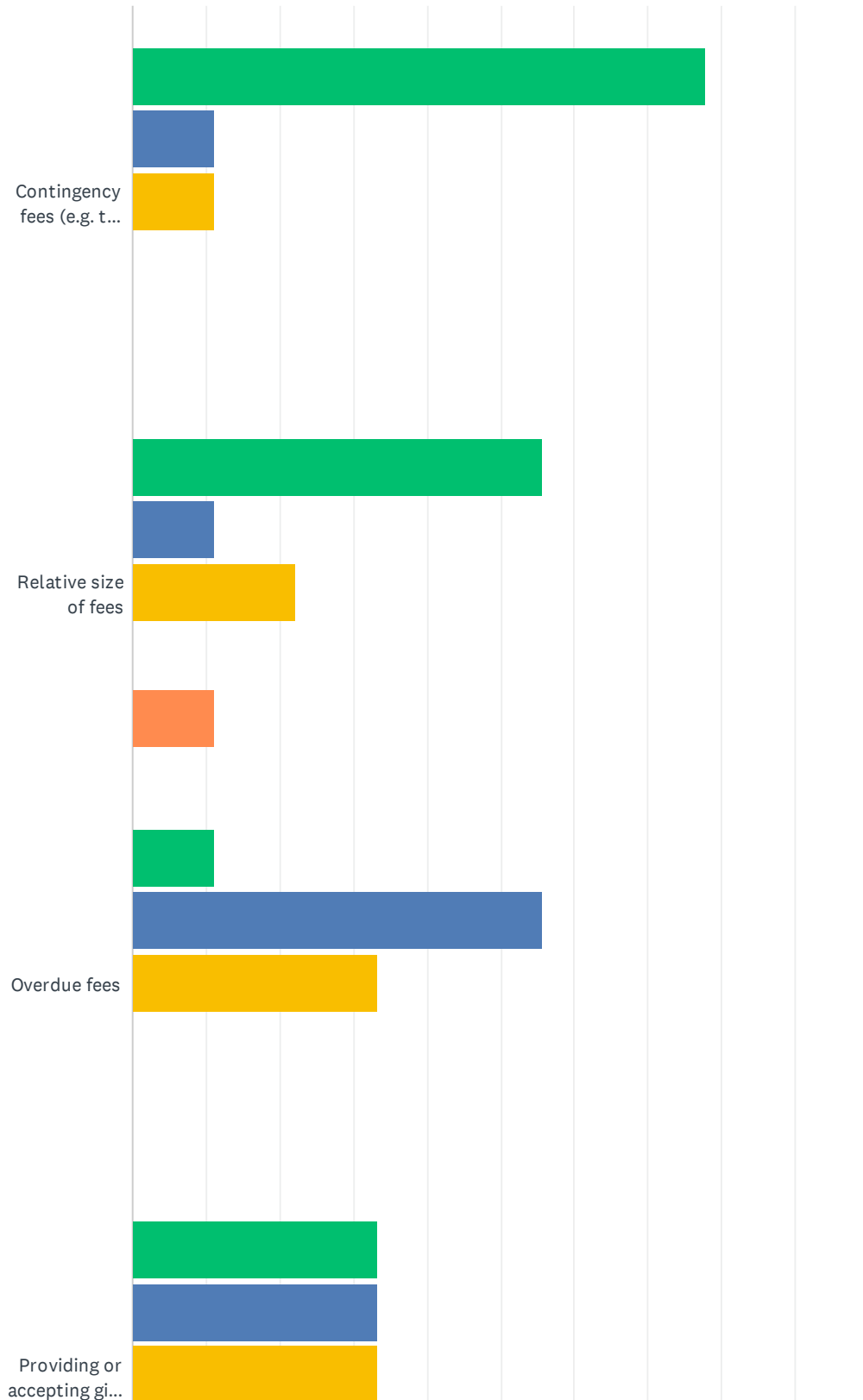
Q17 What rotation policies (for the lead assurance practitioner and independent reviewer) do you have currently in place for GHG assurance engagement?

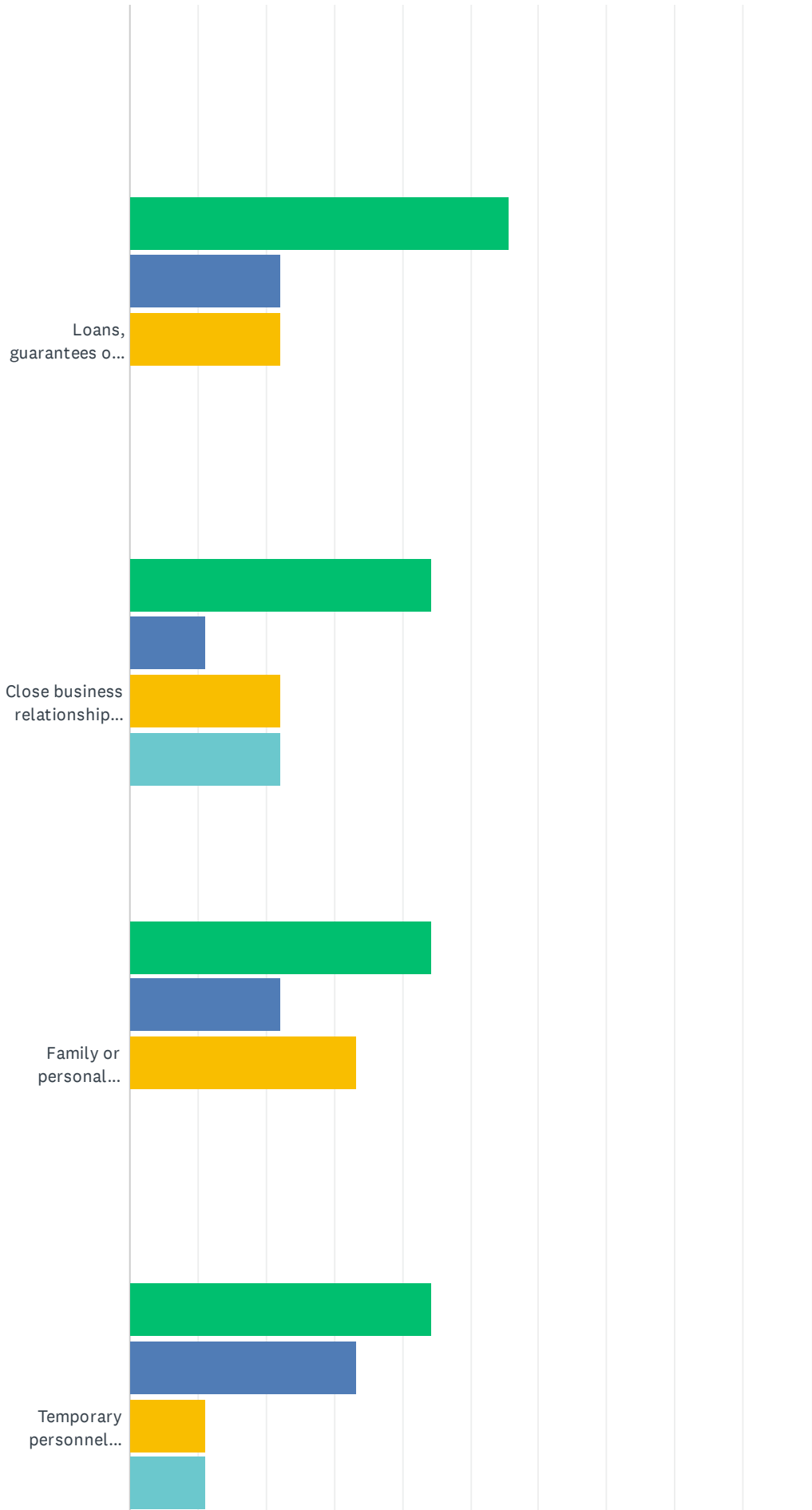
Answered: 8 Skipped: 58

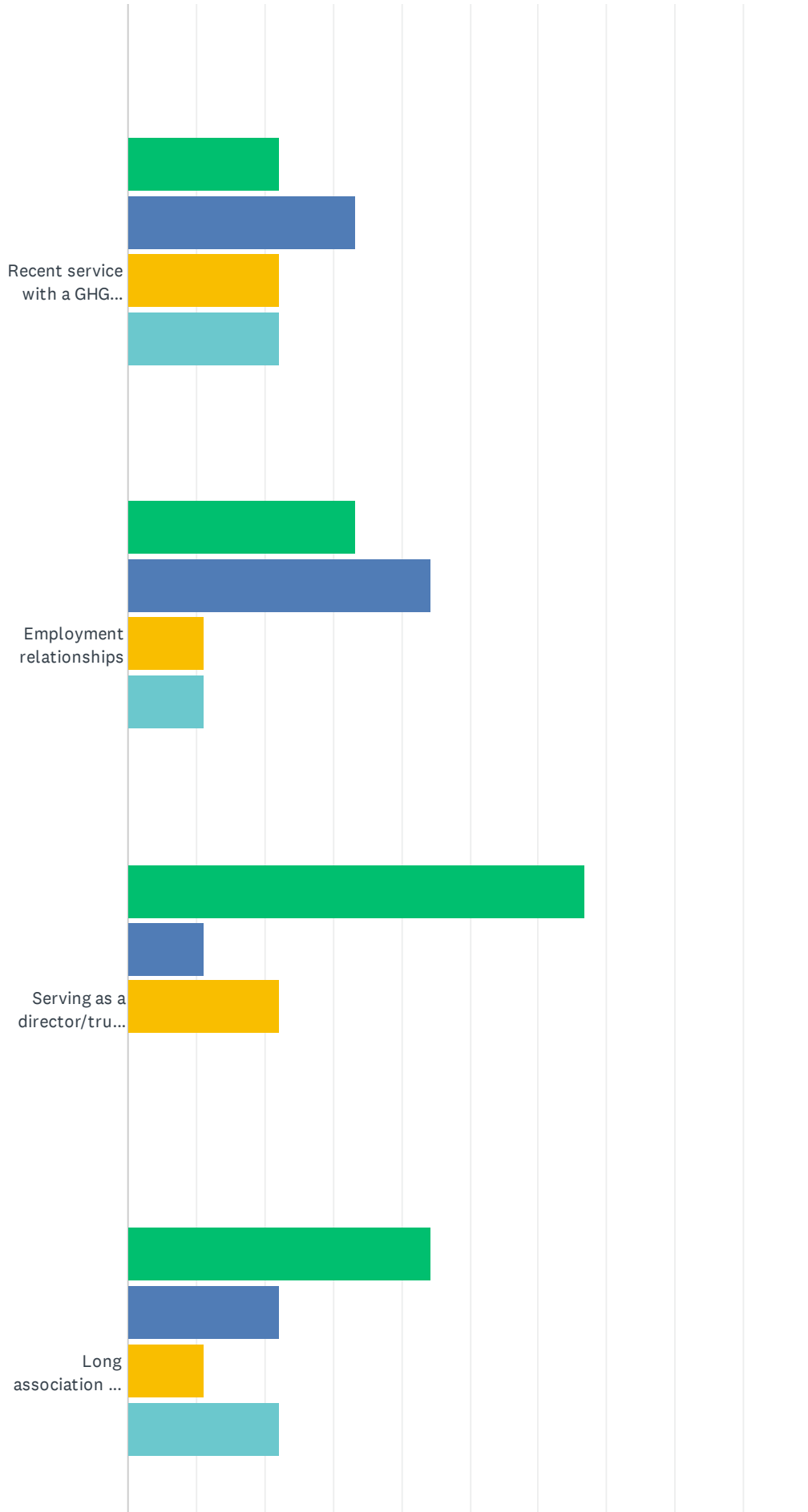
#	RESPONSES	DATE
1	For GHG assurance engagements, our rotation policies reflect those observed by financial audit teams.	9/30/2022 12:08 PM
2	Rotation policies are consistent with those for all assurance work performed under ISAE3000.	9/27/2022 4:53 PM
3	Generally follow audit considerations, relative to the organisation in question	9/22/2022 1:00 PM
4	Rotation policies aligned with professional obligations, to a maximum of 10 years.	9/19/2022 11:52 AM
5	We follow the mandatory rotation requirements in place for PIE's.	9/15/2022 2:33 PM
6	Currently do not provide GHG assurance engagements	9/15/2022 12:28 PM
7	Five years	9/14/2022 12:37 PM
8	No specific policies in place for these	9/12/2022 2:56 PM

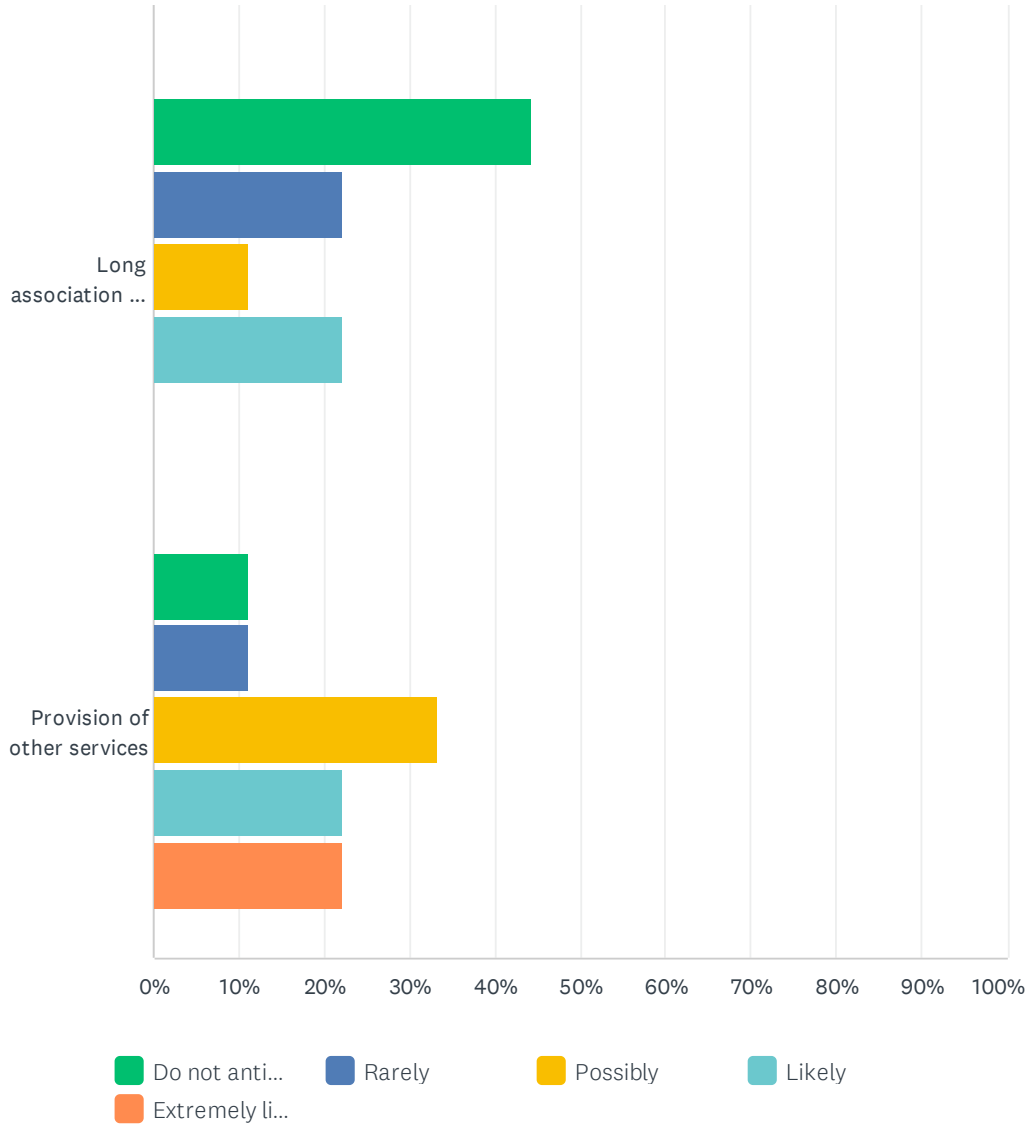
Q18 Which of the following circumstances are most likely to arise in the context of a GHG assurance engagement?

Answered: 9 Skipped: 57









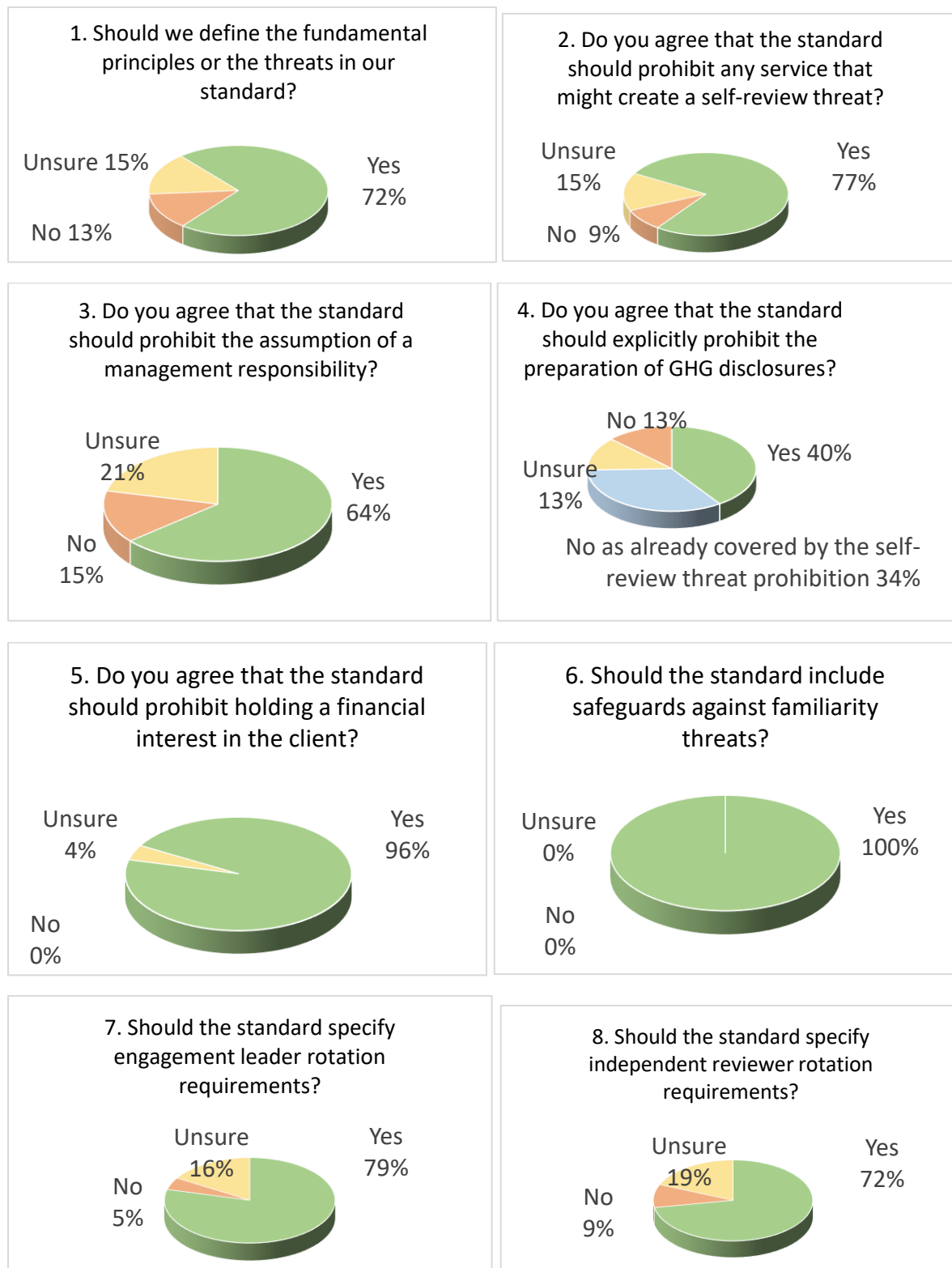
	DO NOT ANTICIPATE THIS ARISING FOR GHG ASSURANCE	RARELY	POSSIBLY	LIKELY	EXTREMELY LIKELY	TOTAL	WEIGHTED AVERAGE
Contingency fees (e.g. the fee is calculated on a predetermined basis based on the outcome or result of the service)	77.78% 7	11.11% 1	11.11% 1	0.00% 0	0.00% 0	9	1.33
Relative size of fees	55.56% 5	11.11% 1	22.22% 2	0.00% 0	11.11% 1	9	2.00
Overdue fees	11.11% 1	55.56% 5	33.33% 3	0.00% 0	0.00% 0	9	2.22
Providing or accepting gifts or hospitality	33.33% 3	33.33% 3	33.33% 3	0.00% 0	0.00% 0	9	2.00
Loans, guarantees or other financial interests	55.56% 5	22.22% 2	22.22% 2	0.00% 0	0.00% 0	9	1.67
Close business relationships between assurance practitioner and the client (e.g. combining services of the assurance organisation and the client)	44.44% 4	11.11% 1	22.22% 2	22.22% 2	0.00% 0	9	2.22
Family or personal relationships between assurance practitioner and the client	44.44% 4	22.22% 2	33.33% 3	0.00% 0	0.00% 0	9	1.89
Temporary personnel assignment	44.44% 4	33.33% 3	11.11% 1	11.11% 1	0.00% 0	9	1.89
Recent service with a GHG assurance client	22.22% 2	33.33% 3	22.22% 2	22.22% 2	0.00% 0	9	2.44
Employment relationships	33.33% 3	44.44% 4	11.11% 1	11.11% 1	0.00% 0	9	2.00
Serving as a director/trustee/officer of a GHG assurance client	66.67% 6	11.11% 1	22.22% 2	0.00% 0	0.00% 0	9	1.56
Long association of personnel with a GHG assurance client	44.44% 4	22.22% 2	11.11% 1	22.22% 2	0.00% 0	9	2.11
Long association of engagement leader with the GHG assurance client	44.44% 4	22.22% 2	11.11% 1	22.22% 2	0.00% 0	9	2.11
Provision of other services	11.11% 1	11.11% 1	33.33% 3	22.22% 2	22.22% 2	9	3.33

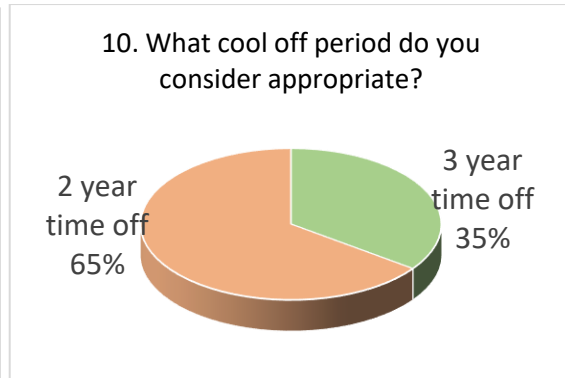
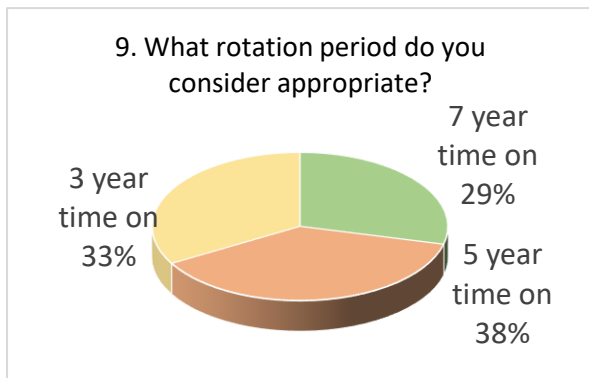
#	OTHER (PLEASE SPECIFY)	DATE
1	Provision of other services is typically other audit and assurance services for the entity.	9/27/2022 4:53 PM
2	in addition, incompatible services provided (ie potential audit of own work)	9/22/2022 1:00 PM

Snapshot of polling results

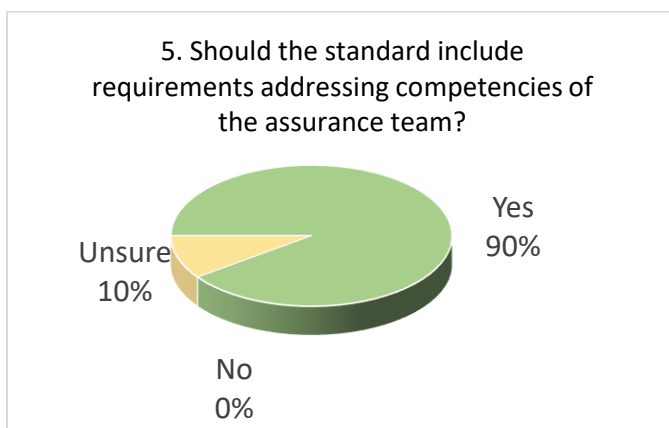
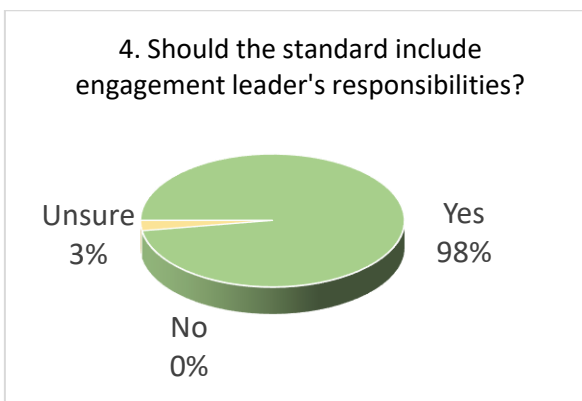
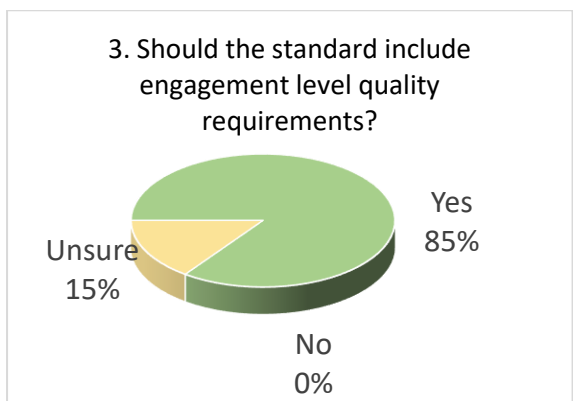
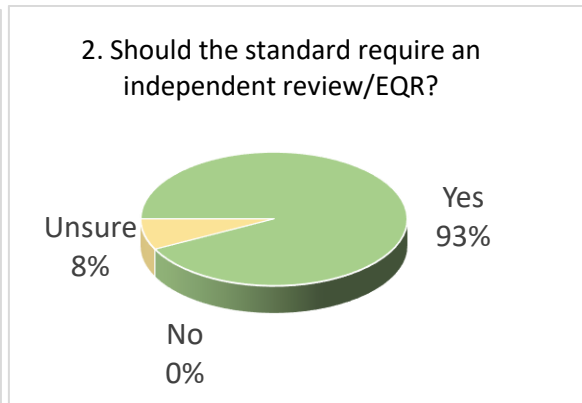
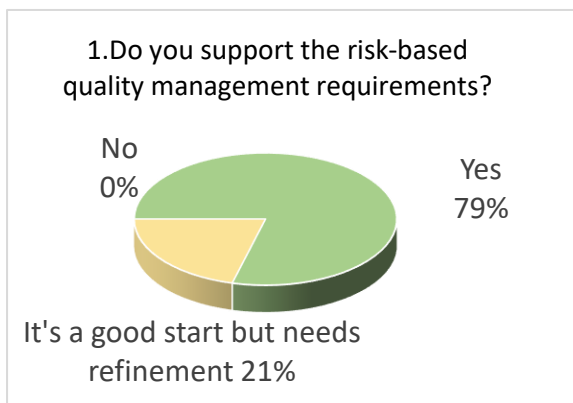
Polling results from the workshop “Shaping Assurance over Greenhouse Gas Emissions Disclosures”, 14 September 2022

Part 1 Ethics questions



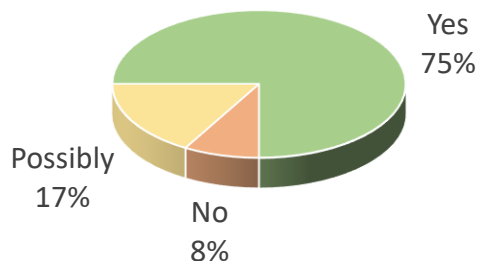


Part 2 Quality Management questions

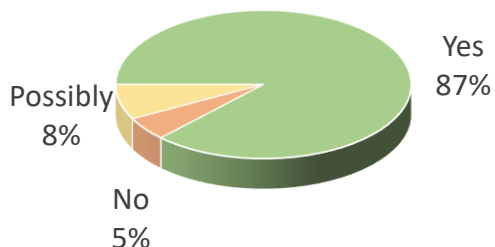


Part 3 Reporting questions

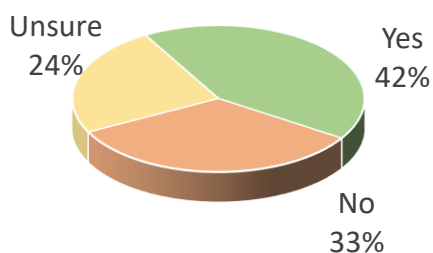
1. Do you support the inclusion of Key Engagement Matters in the assurance report?



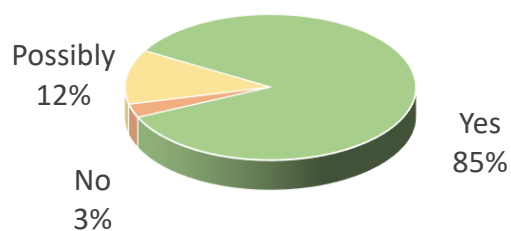
2. Do you consider the assurance report should include specific paragraphs alerting readers to the level of inherent uncertainty?



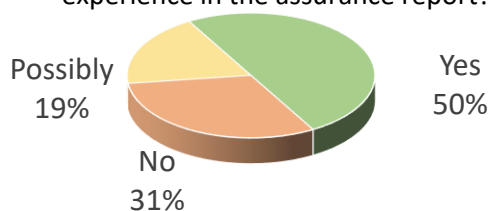
3. Should a separate assurance report be issued for mandatory assurance (GHG) and voluntary assurance?



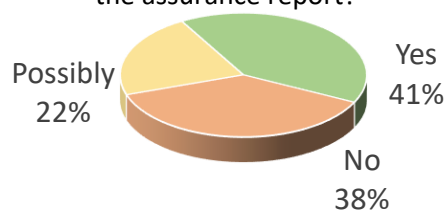
4. Do you consider it is appropriate to require an Other Matter paragraph to alert readers to any comparative information that has not been assured?



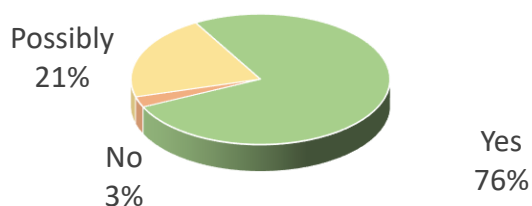
5. Do you consider it is useful to include information about the assurance practitioner's competence and experience in the assurance report?



6. Do you consider it is useful to include information about the competence of any experts in the assurance report?



7. Do you consider it is useful to include information about materiality in the assurance report?



Feedback on NZAuASB ED 2022/3 Assurance over financial information prepared in connection with a capital raising.

Outreach event

13 September 2022

Scope of proposed SAE

Question 1 Do you agree with the scoping of the proposed SAE as described in paragraph 10 of this ITC? If not, please explain why not.

Response: Question whether this standard could apply also to a NZX direct listing engagement? The listing rules for such an engagement utilize the disclosure requirements from the FMC Act and Regulations and there are times where issuers might want to voluntarily seek assurance over the financial information provided. Concern that the narrow scope may prohibit assurance for other engagements in the regulated space. Direct listing are a growing segment around the world in capital markets. Would be helpful if this standard could be used for assurance over financial information in the direct listing space.

Limited assurance

Question 2. Do you agree that the assurance practitioner should provide a limited assurance conclusion only on the types of financial information covered by the assurance report? If not, please explain why not.

Response: No comments

Engagement not performed by the auditor

Question 3. Do you agree that the proposed SAE should not include, as a precondition for engagement acceptance, that the assurance practitioner is also the auditor of the entity, if assurance is sought over historical financial information? If not, please explain why not.

Response: No comments

Question 4. Is the interrelationship between the proposed SAE and the relevant review engagement standards, for assurance over the historical financial information, clear? If not, please explain why not and provide suggestions on how this could be clearer.

Response: No comments

Question 5. Is paragraph A11 sufficiently clear as to the difficulties the assurance practitioner might encounter when assurance is sought over historical financial information and the assurance practitioner is not also the auditor of the entity? If not, please explain why not and provide further examples.

Response: No comments

Naming the lead assurance practitioner

Question 6. Do you agree with the proposal to include the name of the lead assurance practitioner in the assurance report? If not, please explain why not.

Response: Some participants were indifferent to inclusion of the practitioner's name in the assurance report. This engagement differs from the audit in that it is a voluntary engagement.

Much of the evidence available indicates that naming the audit partner improves audit quality. (Mike Bradbury)

Obtaining an understanding and performing procedures

Question 7. In your view, are the required procedures consistent with a limited assurance engagement? If not, please identify the requirements and explain why, in your opinion they are not consistent with a limited assurance engagement

Response: No comments

Question 8. In your view, are there any other procedures that should be required? Please describe the procedures and why, in your view, those procedures should be required.

Response: None identified, leave to practitioner experts to identify.

Effective date

Question 9. Do you agree with the proposed effective date for engagements commencing on or after 15 December 2023, with early adoption permitted? If not, please explain why not.

Response: Yes



Marje Russ, Chair
New Zealand Auditing and Assurance Standards Board
PO Box 11250
Manners St Central
Wellington 6142

13 September 2022

Exposure Draft NZAuASB ED 2022-3 Proposed SAE 3450 Assurance Over Financial Information Prepared in Connection with a Capital Raising

Dear Marje

We appreciate the opportunity to comment on the proposed NZAuASB ED 2022-3 Proposed SAE 3450 *Assurance Over Financial Information Prepared in Connection with a Capital Raising*.

This response is on behalf of PricewaterhouseCoopers New Zealand (PwC NZ). References to “PwC”, “we” and “our” refer to PwC NZ only. This submission is not made on behalf of the global network of member firms.

Overall comments

We are supportive of the NZAuASB issuing a standard dealing with assurance provided in connection with a capital raising. In New Zealand the absence of a specific standard dealing with prospective financial information has resulted in divergence in practice and reliance on standards issued in Australia for guidance on performing these assurance engagements.

We also recognise the importance of international consistency, particularly with Australia, given many entities having a primary and secondary listing on the New Zealand and Australian stock exchanges and therefore agree with the approach to align the standard with ASAE 3450 *Assurance Engagements involving Corporate Fundraising and/or Prospective Financial Information* issued by the Auditing and Assurance Standards Board in Australia.

We note that the standard also references ISAE(NZ) 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information included in a Prospectus*. We agree that the reference to ISAE(NZ) 3420 is appropriate, however, note that this standard itself may be in need of an update. For example the standard references a “Prospectus”. This term is no longer used in New Zealand financial markets legislation.



Questions for respondents

Our responses to the specific questions raised in the ED are attached in Appendix A. Other comments or suggestions of a grammatical nature will be provided to the XRB staff separately.

We appreciate the opportunity to provide feedback on the ED. Please do not hesitate to contact me should there be any matters you would like to discuss further.

Yours faithfully

Karen Shires
Chief Risk & Reputation Officer



Appendix A

Responses to Questions for Respondents

Question 1: Do you agree with the scoping of the proposed SAE as described in paragraph 10 of this ITC? If not, please explain why not.

Given the complexity of these engagements, the fact that it includes assurance on both historical financial information and prospective financial information and the sufficient regularity of capital raising transactions in the New Zealand market, we agree that it is more appropriate to issue a narrow scope standard than not having a standard at all.

We do, however, note that New Zealand does not have an equivalent standard to International Standard on Assurance Engagements 3400 *The examination of Prospective Financial Information (previously ISA 810)* (ISAE 3400) issued by the International Auditing and Assurance Standards Board. Although ISAE 3400 is significantly out of date, the sections dealing with limited assurance over prospective financial information may be useful to Assurance Practitioners when performing assurance engagements over prospective financial information other than those relating to a capital raising.

We therefore suggest that the narrow scope of the standard is clearly stated, but that the standard does allow for use by Assurance Practitioners, adapted as necessary for the specific circumstances, for assurance engagements over prospective financial information prepared for another purpose.

Question 2: Do you agree that the assurance practitioner should provide a limited assurance conclusion only on the types of financial information covered by the assurance report? If not, please explain why not.

Yes, particularly given the subjective nature of prospective financial information.

Question 3: Do you agree that the proposed SAE should not include, as a precondition for engagement acceptance, that the assurance practitioner is also the auditor of the entity, if assurance is sought over historical financial information? If not, please explain why not.

Yes. There are clear benefits to the engagement being conducted by the firm that performs the audit as these engagements are assurance engagements. However the capital raising could be for an entity that has never been audited before, therefore a precondition that the assurance practitioner is also the auditor of the entity may not be practical in some circumstances.

Question 4: Is the interrelationship between the proposed SAE and the relevant review engagement standards, for assurance over the historical financial information, clear? If not, please explain why not and provide suggestions on how this could be clearer.

Yes. We believe that it is clear that you need to comply with both the proposed standard and the applicable review standard in order to provide limited assurance over the historical financial information.

Question 5: Is paragraph A11 sufficiently clear as to the difficulties the assurance practitioner might encounter when assurance is sought over historical financial information and the assurance practitioner is not also the auditor of the entity? If not, please explain why not and provide further examples.

Yes.



Question 6: Do you agree with the proposal to include the name of the lead assurance practitioner in the assurance report? If not, please explain why not.

Given the public nature of these engagements, we agree that, similar to the naming of the audit partner for a FMC reporting entity with higher public accountability in the audit report, it would be appropriate to name the assurance practitioner in this assurance report as well.

Question 7: In your view, are the required procedures consistent with a limited assurance engagement? If not, please identify the requirements and explain why, in your opinion, they are not consistent with a limited assurance engagement.

Yes. In writing a topic specific standard there is a delicate balance between principle based procedures aligned with the level of assurance you are looking to provide and specific procedures that the assurance practitioner should perform. Given the specialised nature of these engagements, we believe the level of detail provided in explaining the procedures the assurance practitioner is expected to perform is consistent with a limited assurance engagement.

Question 8: In your view, are there any other procedures that should be required? Please describe the procedures and why, in your view, those procedures should be required.

Yes. Given that the information over which the assurance practitioner is expressing a limited assurance conclusion is embedded in the Product Disclosure Statement or included in the Register Entry along with other information that is not subject to the assurance engagement, we recommend that the standard explain what, if any, are the assurance practitioner's obligations regarding the "other information" that accompanies the assurance practitioner's assurance report.

Although the proposed standard includes procedures regarding evaluating the suitability of the basis of preparation for prospective financial information, the standard, understandably, does not include any specific references to FRS-42 *Prospective Financial Statements*. However we believe that the proposed standard should indicate, possibly by way of a footnote, that for capital raisings in New Zealand where the historical financial statements are prepared under New Zealand Equivalents to International Financial Reporting Standards, any prospective financial statements (or other prospective financial information) should be prepared in accordance with FRS-42.

Question 9: Do you agree with the proposed effective date for engagements commencing on or after 15 December 2023, with early adoption permitted? If not, please explain why not.

Yes.

Feedback on NZAuASB ED 2022/3 Assurance over financial information prepared in connection with a capital raising.

Interview with Darby Healey, KPMG

13 September 2022

Scope of proposed SAE

Question 1 Do you agree with the scoping of the proposed SAE as described in paragraph 10 of this ITC? If not, please explain why not.

Response: Agree with the narrow scope, although noted that this is very prescriptive (particularly compared with the new climate standards) and questioned whether this is necessary.

Limited assurance

Question 2. Do you agree that the assurance practitioner should provide a limited assurance conclusion only on the types of financial information covered by the assurance report? If not, please explain why not.

Response: Agree with limited assurance engagement. Agree that the engagement is one of enquiry and analytical procedures. Further work is required when something comes to the assurance practitioner's attention.

Expressed concern that the ASAE drives the assurance practitioner to perform more detailed work on the HFI than is practice in NZ. Questioned whether the intent of the proposed standard is to require the investigating accountant to extend the scope of work on the HFI.

Engagement not performed by the auditor

Question 3. Do you agree that the proposed SAE should not include, as a precondition for engagement acceptance, that the assurance practitioner is also the auditor of the entity, if assurance is sought over historical financial information? If not, please explain why not.

Response: Agree. Acknowledge that it is preferable that the auditor perform this work, but note that this may not be feasible in all circumstances.

Question 4. Is the interrelationship between the proposed SAE and the relevant review engagement standards, for assurance over the historical financial information, clear? If not, please explain why not and provide suggestions on how this could be clearer.

Response: Paragraph 15 of the ITC is very clear about the specific review standards that apply. Paragraphs 5-7 of the proposed standard refer to applicable review standards which is not as clear. Need to make it clear which review standards apply.

Question whether there is a typo in para A11 (ISAE vs ISRE)?

Question 5. Is paragraph A11 sufficiently clear as to the difficulties the assurance practitioner might encounter when assurance is sought over historical financial information and the assurance practitioner is not also the auditor of the entity? If not, please explain why not and provide further examples.

Response: Agree paragraph A11 is sufficiently clear, however it is very wordy and contains an additional “;”. Clarify the intention of the investigating accountant when the firm is the auditor. Is there a different expectation.

Naming the lead assurance practitioner

Question 6. Do you agree with the proposal to include the name of the lead assurance practitioner in the assurance report? If not, please explain why not.

Response: No. Do not support naming of the lead assurance practitioner in the report. The firm is engaged to perform the engagement, not the individual. Naming of the lead assurance practitioner targets one individual in the firm. In reality, that individual is supported by a much broader structure. Adding the lead assurance practitioner’s name to the report does not add value. Also question why this is necessary in NZ when not a requirement of the ASAE.

Obtaining an understanding and performing procedures

Question 7. In your view, are the required procedures consistent with a limited assurance engagement? If not, please identify the requirements and explain why, in your opinion they are not consistent with a limited assurance engagement

Response: Agree that the procedures are consistent with a limited assurance engagement. Note that they are very prescriptive, but are consistent with the procedures the investigating accountant performs on this type of engagement.

Question 8. In your view, are there any other procedures that should be required? Please describe the procedures and why, in your view, those procedures should be required.

Response: The investigating accountant’s review of the entity’s model for preparation of the financial information is a fundamental piece of the engagement. While the model review is not specifically required by the standard, the review of components of the model is captured within the detailed requirements. Do not consider further procedures are required.

Effective date

Question 9. Do you agree with the proposed effective date for engagements commencing on or after 15 December 2023, with early adoption permitted? If not, please explain why not.

Response: Yes



**Building a better
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The Chief Executive
External Reporting Board
PO Box 11250
Manners St, Central
Wellington 6142 New Zealand

27 September 2022

Dear Ms Mackenzie

Submission on Exposure Draft NZAuASB 2022-3 Proposed Standard on Assurance Engagements SAE 3450 Assurance Over Financial Information Prepared in Connection with a Capital Raising ("Proposed Standard")

Ernst & Young welcomes the opportunity to offer its views on the Proposed Standard. Overall, we support the External Reporting Board ("XRB") in developing the Proposed Standard given the current lack of an appropriate assurance standard over financial information prepared in connection with a capital raising in New Zealand.

However, we have identified some issues with the Proposed Standard in its current form which we strongly urge the XRB to address prior to finalisation. Those matters are outlined below, and we also attach the following Appendices:

- ▶ Appendix 1: Responses to specific questions raised by XRB
- ▶ Appendix 2: Further detailed comments
- ▶ Appendix 3: General editorial comments

Given the matters raised, we recommend that the XRB work towards reissuing an amended exposure draft of the Proposed Standard for further review and comment.

Due Diligence Standards

We understand that the Proposed Standard has largely been based on the equivalent Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* ("ASAE 3450"). In the Australian market, there are also complementary standards issued by the Australian Professional & Ethical Standards Board in relation to a practitioner's participation in a Due Diligence Committee established by an issuer for a capital markets transaction and associated due diligence reporting which typically accompanies a practitioner's assurance engagement on financial information disclosed in an offer document. These standards include APES 345 *Reporting on Prospective Financial Information Prepared in connection with a Public Document*, APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document* and APES GN 31 *Professional and Ethical Considerations relating to Low Doc Offering Sign-offs*.

There are currently no comparable standards in New Zealand relating to due diligence participation and reporting by a practitioner. This has led to differing market practice in New Zealand in relation to how practitioners navigate their engagement scope and reporting in capital markets transactions with issuers and Due Diligence Committees. We believe it is important for the XRB to give consideration to equivalent requirements and guidance in New Zealand as it seeks to align the requirements and practices of the two jurisdictions where possible and subject to country specific laws and regulations. In our view, this comprehensive approach would promote a more consistent framework in the application and interpretation of the Proposed Standard in relation to both the assurance report and the associated due diligence reporting undertaken by the practitioner.

Limited vs. Reasonable Assurance on Financial Information

The Proposed Standard allows limited assurance to be provided over financial information prepared in connection with a capital raising which we believe reflects an appropriate position in the NZ market. In our view, given the inherent uncertainty around the assumptions being achieved, and that most prospective financial information incorporates best estimate assumptions, there are very few circumstances where an assurance practitioner would be able to provide a reasonable assurance conclusion in relation to the best estimate assumptions. Limited assurance is consistent with current market practice in both Australia and NZ which does not support providing reasonable assurance around any elements of prospective financial information that contain best estimate assumptions given this uncertainty. We fully support the XRB's position of only providing limited assurance conclusions on the financial information disclosed in connection with a capital raising.

Interaction with Existing Auditing Standards

We acknowledge there are existing NZ Auditing Standards which establish specific requirements and provide guidance for assurance practitioners reporting on financial information in connection with a capital raising or reporting on prospective financial information (including International Standards on Review Engagements (NZ) such as NZ 2400 and NZ 2410, in relation to historical information, and ISAE (NZ) 3000 (Revised) in relation to prospective information). However, we support the XRB in developing a stand-alone assurance standard covering both historical and prospective financial information as we believe there are sufficient unique criteria associated with capital raisings and prospective financial information that warrant a separate standard. We also believe the Proposed Standard will increase the consistency of assurance reports provided in these circumstances which we believe is in the public interest.

That being said, we did observe several instances where the requirements have been directly referenced as being a requirement of Review Engagement Standards and ISAE (NZ) 3000 (Revised) only without it being specifically called out as a requirement of the Proposed Standard as well (some examples have been identified in our detailed comments in Appendix 2). The Proposed Standard should first and foremost set out specific requirements in itself and then where applicable, demonstrate the interrelationship in application and other explanatory material, noting that the relationship with other standards has already been covered upfront in paragraph 5 of the Proposed Standard.

Furthermore, we note that the reference in paragraph 11 of the Proposed Standard refers to Review Engagement Standards which apply to financial statements only, rather than review of historical financial information which may be in a form other than a financial report - to illustrate ASAE 3450 for example makes a specific reference to ASRE 2405 *Review of Historical Financial Information Other than a Financial Report* however we understand that NZ does not have an equivalent standard. This makes cross-referencing difficult for the purposes of the Proposed Standard as the historical financial information has been assessed against NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* which is not directly comparable given the historical financial information is not in the same form as a set of financial statements, and as noted below only comprises selected financial information (some of which may be non-GAAP).

Consistency with Equivalent Australian Standard

We understand that the Proposed Standard has been prepared with significant reliance on ASAE 3450. We also note that the Proposed Standard has adopted a more streamlined structure and simplified language to make it easier to understand and interpret than may be the case in ASAE 3450.

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However there are several areas where we believe it would be more beneficial for the Proposed Standard to maintain consistency with ASAE 3450:

- ▶ Definitions outlined in paragraph 10 of the Proposed Standard for assumptions, pro forma adjustments, prospective financial information and stated basis of preparation are not consistent with ASAE 3450. In these cases, we don't believe there should be any differences in the meaning attributed to these given there are no market or regulatory differences in how they would be interpreted in Australia versus NZ. Further, the contextual reference as to who is responsible for these has also been removed, for example ASAE 3450 makes it clear that the assumptions, base financial information and pro forma adjustments are determined by the responsible party (usually the Directors of the IPO vehicle) whereas the Proposed Standard is silent on this potentially making it open to interpretation. Further, the definition of responsible party appears more limited than ASAE 3450.
- ▶ ASAE 3450 establishes requirements and provides application and other explanatory material in respect of areas such as Quality Control, Professional Scepticism, Professional Judgement, Documentation, Other Information Included in the Document and Inability to Comply with the Requirements of the Proposed Standard or other NZ Standards. No equivalent requirements or guidance exists in the Proposed Standard in respect of these areas.
- ▶ ASAE 3450 includes a cross reference to existing auditing standards on matters such as going concern, subsequent events and use of experts. This allows the assurance practitioner to refer to those standards for further guidance and application material.

Paragraphs 51(i) and (j) under the Proposed Standard require compliance statements of professional and ethical standards, including independence, to be made in the assurance report by the assurance practitioner. Whilst this is not a requirement under ASAE 3450 or ISAE (NZ) 3000 (Revised), in this instance we concur with this proposed requirement which will contribute to consistency across the market.

We recommend that the XRB further reassess the consistency of requirements, application and other explanatory material under the Proposed Standard with ASAE 3450, where appropriate.

Relevant Accounting Framework

Unlike ASAE 3450, the Proposed Standard does not define the "stated basis of preparation" with reference to an acceptable accounting framework as set by the accounting bodies/ regulators which would be appropriate for the responsible party to apply in its preparation of the financial information to be published in connection with a capital raising. For prospective financial information, given the responsible entity is required to prepare these in accordance with Financial Reporting Standard 42 *Prospective Financial Statements* (FRS-42), this is an important aspect to make clear in the Proposed Standard and gives the assurance practitioner a basis for its limited assurance conclusion. It would be helpful for the XRB to also provide guidance as part of the definition of the "stated basis of preparation" in the Proposed Standard on what would be appropriate in respect of historical, pro forma historical and pro forma prospective financial information.

We note that there are material differences in market practice between Australia and New Zealand around disclosures of, and consequently the assurance provided on, financial information which need to be considered in drafting the Illustrative Engagement Letter and Assurance Report set out in Appendices 1 and 3 of the Proposed Standard. In Australia, the financial information upon which assurance is provided is limited to historical, pro forma historical, prospective and pro forma prospective financial information which have been prepared in accordance with an acceptable accounting framework but which may be published as part of a much, wider financial information disclosures within an offer document such as reconciliation tables of pro forma financial information to statutory information and to non-GAAP measures, key operating and financial metrics together with accounting policies. In each case, the financial information "tables" on which assurance is provided represent primary statements such as an income statement, cash flow statement or balance sheet which have been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards (and/or IFRS), which is consistent to ASIC's expectations covered in Regulatory Guide (RG) 228 *Prospectuses: Effective*



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Disclosure for Retail Investors and RG 230 Disclosing Non-IFRS Financial Information. This results in historical and prospective (both statutory and pro forma) financial information sitting side by side in the same or adjacent tables for multiple periods. None of the supplementary reconciliation tables in the financial information section, nor individual financial statement line items and key metrics, are included in the scope (and consequently conclusion) of the assurance report issued by the assurance practitioner.

In contrast, in New Zealand there is a standalone set of prospective financial information prepared in accordance with Financial Reporting Standard 42 *Prospective Financial Statements*, which include primary statements as well as assumptions and notes to the prospective financial statements. The issuer may then disclose in the offer document selected historical, pro forma historical, prospective and pro forma prospective financial information presented in tabular form representing individual financial statement line items as well as non-GAAP key metrics such as revenue, EBITDA and associated reconciliations, net profit after tax/ (loss after tax), net cash flows from operating activities, total assets, cash and cash equivalents, total liabilities, total debt and total debt including leases. These individual line items are ordinarily extracted or derived from the published prospective financial statements, annual and/ or interim financial reports but do not represent "full" primary statements. Each individual financial statement line item or non-GAAP measure on its own, in our view, does not meet the recognition and measurement requirements of an acceptable accounting framework, except perhaps to the extent that they meet the requirements of Financial Reporting Standard 43 *Summary Financial Statements* ("FRS 43"). We note however that the requirements of FRS 43 differ from the disclosure requirements under the Financial Markets Conduct Regulations and do not consider non-GAAP or pro forma financial information.

Given these differences in financial information disclosure between Australia and NZ, and noting that many NZ offers/ listings are made in both jurisdictions, it would be beneficial to have consistency in the stated basis of preparation in the Proposed Standard for historical, pro forma historical and pro forma prospective financial information. This allows the basis of preparation for such financial information to be more aligned to Australian market practice in that it is prepared and/ or presented in accordance with an acceptable accounting framework which can be supplemented by disclosure of individual financial statement line items, non-GAAP measures and reconciliations which are relevant in the NZ market. We believe this approach will also facilitate consistency in the assurance being provided on the historical, pro forma historical and pro forma prospective financial information between the two jurisdictions. We recommend that the XRB reassess the nature and scope of the assurance being proposed on the financial information disclosed in light of the intricacies of the Australian and NZ market disclosures.

We also note that complimentary to the assurance report issued and included in the Offer Register, it is customary for the practitioner to provide a due diligence report to the responsible party (the Directors of the IPO/transaction vehicle and typically also a Due Diligence Committee) in respect of its review of financial information and financial (and tax) due diligence undertaken. We think the broader aspects of financial information which are non-GAAP and not included in an assurance report are legitimate subjects for the practitioner to perform due diligence upon and to separately report and agree terms of reference in relation to.

We welcome the opportunity to contribute to the improvement of auditing standards on Assurance Engagements that will continue to drive the quality and consistency of such services in NZ. We would be pleased to discuss our comments with members of the New Zealand Auditing and Assurance Standards Board and its staff. If you wish to do so, please contact either Andrew Taylor on (09 348 8038) or Simon Brotherton on (09 348 6609).

Yours sincerely

Simon Brotherton
Assurance Professional Practice Director - NZ

Andrew Taylor
Partner - Strategy and Transactions

Appendix 1 Responses to Specific Questions Raised by the External Reporting Board

1. Do you agree with the scoping of the proposed SAE as described in paragraph 10 of this ITC? If not, please explain why not.

- ▶ No. Whilst the proposed SAE has an intentionally narrow scope in terms of the types of capital raisings and transactions it may apply to, we believe that the principles of the proposed SAE can also be applied to financial information which may be prepared but not necessarily published for similar capital raising transactions.
- ▶ The proposed SAE could for example be used for the purpose of providing private limited assurance reports on financial information to the directors of the entity and as such, we believe the Proposed Standard can have an expanded scoping.

2. Do you agree that the assurance practitioner should provide a limited assurance conclusion only on the types of financial information covered by the assurance report? If not, please explain why not.

- ▶ Yes, we agree that the assurance practitioner should provide a limited assurance conclusion only on the types of financial information covered by the assurance report.
- ▶ However, we do see a concern with elements of the illustrative assurance report in Appendix 3, see our cover letter for further comments on this.

3. Do you agree that the proposed SAE should not include, as a precondition for engagement acceptance, that the assurance practitioner is also the auditor of the entity, if assurance is sought over historical financial information? If not, please explain why not.

- ▶ Yes, we agree that being an auditor of the entity should not be a precondition for engagement acceptance regardless of whether assurance is sought over historical financial information.

4. Is the interrelationship between the proposed SAE and the relevant review engagement standards, for assurance over the historical financial information, clear? If not, please explain why not and provide suggestions on how this could be clearer.

- ▶ The interrelationship between the proposed SAE and the relevant review engagement standards is clear at the start of the proposed SAE (i.e. paragraphs 1 to 11) however we believe that this clarity may potentially be lost as you read through the rest of the proposed SAE.

As an example, agreeing the terms of the engagement and planning and performing the engagement (paragraphs 15 to 17) all refer to requirements being "... in accordance with ISAE (NZ) 3000 (Revised) and Review Engagements Standards, as applicable ...". This implies that these are not requirements of the proposed SAE but come about because of the interrelationship with these standards which is not appropriate in our view. These paragraphs should first and foremost describe the specific requirements of the Proposed Standard and then where applicable, demonstrate the interrelationship in application and other explanatory material given the relationship with other standards has already been covered upfront in paragraph 5 of the Proposed Standard.

5. Is paragraph A11 sufficiently clear as to the difficulties the assurance practitioner might encounter when assurance is sought over historical financial information and the assurance practitioner is not also the auditor of the entity? If not, please explain why not and provide further examples.

- ▶ In our view paragraph 11 has acknowledged that there may be issues where the assurance practitioner is not the auditor of the historical financial information, but this may be of limited benefit as it has not provided clarity to the assurance practitioner on how to go about managing these difficulties.
- ▶ Paragraph 11 has simply stated the obvious in terms of a list of matters to consider without guidance as to how to determine what additional procedures may be required by the assurance practitioner - this may need to be cross referenced to application and other explanatory material later in the Proposed Standard which may be useful in navigating these challenges.
- ▶ We believe it would be helpful to further outline considerations where the historical financial information has been subject to audit by another practitioner including the nature of procedures to be undertaken and the materiality level applied, in determining the requirement for further assurance procedures.

6. Do you agree with the proposal to include the name of the lead assurance practitioner in the assurance report? If not, please explain why not.

- ▶ In our view, the requirement for the lead assurance practitioner to be named should be consistent with the requirement in NZ ISA (700) Revised in relation to the audit report on the financial statements, ie if the entity is or will become a FMC entity with Higher Accountability then the assurance practitioner should be named.

7. In your view, are the required procedures consistent with a limited assurance engagement? If not, please identify the requirements and explain why, in your opinion they are not consistent with a limited assurance engagement.

- ▶ Overall, we agree that the required procedures are largely consistent with a limited assurance engagement.
- ▶ In respect of prospective financial information, the required procedures outlined in paragraphs 32, 34, 36 and 37 appear long and in some cases, repetitive. Similar procedures are being described multiple times for assumptions, time periods and stated basis of preparation. We recommend that the procedures could be streamlined further in respect of prospective financial information.
- ▶ Similarly, the guidance on pro forma historical and pro forma prospective financial information could also easily be dealt with a cross reference and the guidance on whether the base financial information has previously been subject to audit or review and differing stated basis of preparation from current vs base financial information has been covered multiple times across different paragraphs.



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8. In your view, are there any other procedures that should be required? Please describe the procedures and why, in your view, those procedures should be required.

- ▶ In paragraph 17, recommend that a procedure be included for “assessing assurance engagement risk” for consistency with ASAE 3450.
- ▶ In paragraphs in 20-23, recommend that consideration of the nature of the entity and the environment it operates in is included as this is pertinent to the assessment of engagement risk.
- ▶ In paragraph 23, recommend that the type of offer document in which the financial information will be included or published as part of be considered as well.
- ▶ In paragraph 23(h), recommend that after the competence of the preparers of the financial information, state “including the extent to which the financial information may be affected by judgement.”

9. Do you agree with the proposed effective date for engagements commencing on or after 15 December 2023, with early adoption permitted? If not, please explain why not.

- ▶ Yes, we consider the proposed effective date and permissibility of early adoption to be appropriate subject to the matters raised herein being sufficiently addressed with further updates to the proposed SAE in advance of issuance.
- ▶ We don't believe an additional 12 months is required for implementation once the Proposed Standard is issued given to a large extent the principles covered in the Proposed Standard are already being applied in the market, with significant reliance on ASAE 3450.

Appendix 2 - Further Detailed Comments on the Proposed Standard

Section/ Paragraph	Topic	Comment
9	Objectives	Recommend that the requirement in 9(c) is made consistent with ASAE 3450 - "to communicate in accordance with the assurance practitioner's findings as otherwise required by this SAE."
10	Definitions	<p>Recommend that the Proposed Standard definitions are consistent with ASAE 3450, specifically in respect of assumptions, base financial information, pro forma adjustments and stated basis of preparation. The context of who provides or determines these items should also be specified as part of the definition, i.e. the responsible party. This is particularly important given the definition of responsible party appears to be more limited than ASAE 3450.</p> <p>The definition of prospective financial information appears odd in that it states that external users are not able to require it or contract for the preparation of special reports to meet their specific information needs. There is no legal or regulatory requirement to prepare prospective financial information which in our view should be included only by the responsible party where the directors believe that there are reasonable and supportable grounds to include it in order for investors to make an informed decision regarding their potential investment. The definition linking it to a requirement or contractual obligation by external users does not make sense in light of the circumstances under which it may be prepared and published by an issuer.</p>
10/ Various	Definitions	The terms "base historical financial information" and "base financial information" have been used throughout the Proposed Standard however a definition is only included for the latter.
15	Agreeing the Terms of the Engagement	Recommend this includes a responsibility for determining the applicable time period of the financial information as part of 15(d).
15-17, 48	<p>Agreeing the Terms of the Engagement</p> <p>Planning and Performing the Engagement</p> <p>Forming the Assurance Conclusion</p>	Refer to requirements being "... in accordance with ISAE (NZ) 3000 (Revised) and Review Engagement Standards, as applicable ...". This implies that these are not requirements of the proposed SAE but come about because of the interrelationship with these standards which is not appropriate in our view. These paragraphs should first and foremost describe the requirements of the proposed SAE and then where applicable, demonstrate the interrelationship in application and other explanatory material noting that the relationship with other standards has already been covered upfront in paragraphs 5 to 6 of the Proposed Standard.



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Section/ Paragraph	Topic	Comment
20-23	Understanding the source and basis of preparation of the Financial Information and Other Engagement Circumstances	Recommend we include consideration of the nature of the entity and the environment it operates in as part of the requirements.
32	Prospective financial information	The use of the words “extracted” in relation to prospective financial information does not seem logical as the responsible party “prepares” the prospective financial information on the basis of best-estimate assumptions. Prospective financial information is not able to be extracted from an appropriate source in the same way that historical financial information may be “extracted” from previously audited or reviewed financial statements.
24, 26, 31, 38	Pro Forma Historical Financial Information Pro Forma Historical Prospective Financial Information	Need to ensure that the language used to describe procedures and the procedures themselves are consistent in principle for both pro forma historical and pro forma prospective financial information. This is important given the basis for designing and executing the procedures for both are similar in that pro forma adjustments are based on a set of events and/ or transactions determined by the responsible party. This consistency is important to establish in the Proposed Standard as in principle the interpretation and execution of procedures by the assurance practitioner should be the same in this case.
42	Written Representations - Prospective financial information	Recommend that the responsible party also acknowledge their responsibility for determining the best-estimate assumptions on which the prospective financial information is based and that the assumptions are reasonable and supportable.
46-47	Going concern considerations	We recommend that this requirement be specifically extended to address that an assessment is also made of whether going concern is an issue assuming the capital raising is successful. We note that in the application and other explanatory material in paragraph A65 there is an implication that the going concern assumption ordinarily applies for historical financial information only however in our view, going concern should be considered in light of the capital raising overall as well.

Section/ Paragraph	Topic	Comment
51(o)	Consent to the inclusion of the assurance report	A separate section on consent is included in the Independent Limited Assurance Report. Market practice is for the assurance practitioner to issue a separate consent letter to the entity. We do not believe that a consent section is appropriate in the assurance report and we recommend it be removed. It is circular to state that consent has been provided in the assurance report and then provide a separate consent letter in itself. The assurance practitioner should be consenting separately to inclusion of the assurance report.
A4	Definitions	In our view, the assurance report may also be referred to as an Independent Limited Assurance Report as well as an Investigating Accountant's Report.
A28	Understanding the Source and Basis of Preparation of the Financial Information and Other Engagement Circumstances	Introduces for the first time a concept of "suitability of criteria" in the 2 nd bullet point which in our view is not relevant in the Proposed Standard. The assessment should be against the stated basis of preparation only which is consistent with the requirements of the Proposed Standard.
A29	Understanding the Source and Basis of Preparation of the Financial Information and Other Engagement Circumstances	The concept of "subject matter information" and reference to sustainability report in this paragraph does not make sense and is considered inappropriate given the scope of the Proposed Standard is only in respect of assurance over financial information in connection with a capital raising.
A36	Pro Forma Financial Information	<p>In the 3rd bullet point, there is a reference to stated basis of preparation being an entity's accounting policies. In our view, this is a very narrow interpretation of what a stated basis of preparation may represent and does not take into consideration what an acceptable accounting framework is in the context of published financial information. We recommend, consistent to our earlier comment, that the definition of a stated basis of preparation be expanded to provide illustrative examples of what is an acceptable accounting framework both from a regulatory and market practice perspective.</p> <p>We also recommend that reference is included to assessing the materiality level applied in relation to the audit or review of the historical financial statements as compared to the materiality level assessed for the purposes of the limited assurance engagement.</p>



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Section/ Paragraph	Topic	Comment
Appendix 1, 2 and 3	Illustrative Engagement Letter, Representation Letter and Assurance Report	<p>The scope and consequently, the conclusion on, the historical financial information, pro forma historical financial information and pro forma prospective financial information on which assurance is being provided differs to ASAE 3450 as it implies that non-GAAP information is covered by the opinion which we do not consider appropriate. For example, in respect of prospective financial information, the scope and conclusion with regard to the EBITDA reconciliation and selected financial information included in the offer document is non-GAAP and therefore not appropriate (refer also to comments in respect of due diligence reporting in our cover letter).</p> <p>In Australia, only a set of financial information that has been prepared under an acceptable, accounting framework such as IFRS and which reflect primary statements like an income statement, balance sheet or cash flow statement qualify as an appropriate, stated basis of preparation. Individual line items, non-GAAP measures and reconciliations are considered supplemental disclosures and are not covered by the assurance report.</p> <p>We believe that the XRB should give further consideration to the scope and conclusion statements for the historical, pro forma historical, prospective and pro forma prospective financial information illustrated in these Appendices having regard to the above matters. As outlined in our earlier comments, we believe that the XRB may wish to align the stated basis of preparation, and consequently the assurance given, between Australia and NZ market practices.</p>

Appendix 3- General Editorial Comments on the Proposed Standard

Paragraph	Topic	Comment
10 (f) and (g)	Definitions	Recommend consistency checks be performed on the Proposed Standard, for example 10(f) refers to generally accepted accounting principles whilst 10(g) refers to NZ generally accepted accounting practice.
12	Requirements	The assurance practitioner shall not represent compliance with this SAE unless the assurance practitioner has complied with the requirements of both this SAE, and ISAE (NZ) 3000 (Revised) and/or Review Engagement Standards, as applicable.
13	Preconditions for the Assurance Engagement	In addition to the requirements of ... (a) the preparation of the financial information in accordance with the stated basis of preparation, including the selection of the financial information and determining the applicable time to be covered by the financial information ...
14	Preconditions for the Assurance Engagement - Prospective Financial Information	Reference to paragraph 12 within should be changed to paragraph 13. 14(b) faithfully represent the assumptions and information on which the prospective financial information is based. The same edit is recommended in paragraph A3.
17	Planning	Remove full stop after the words "as applicable" in the opening sentence.
26	Pro Forma Prospective Financial Information	Reference to paragraph 23 within should be changed to paragraphs 23 and 25. 26(a) states that consideration be made of whether the base financial information has been previously audited or reviewed - this should be removed or at a minimum remove reference to "audited" as the base used to prepare pro forma prospective information would typically be prospective financial information which would never have been previously audited (and rarely reviewed previously). 26(d) should state that "any recent changes in the entity's business activities and how they affect the pro forma prospective financial information."
30(a)(ii)	Designing and Performing Procedures	Reference to "unaudited or unreviewed" - recommend this be changed to "audited or reviewed annual or interim financial report respectively" given this arises where there is an annual or interim financial report.
30(c)(iv)	Designing and Performing Procedures	If any part of the financial information has been previously audited or reviewed, that it agrees to those audited or reviewed records financial statements .
"31"	Pro forma historical financial information	Numbering in the Proposed Standard currently states "10" but this paragraph appears to be "31".

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Paragraph	Topic	Comment
31(e)	Pro forma historical financial information	Determining whether the resultant pro forma historical financial information reflects the results of the applying the pro forma adjustments to the base financial information.
32(a)	Prospective financial information	Make inquiries of the responsible party, experts and relevant parties on the nature of the and source of the prospective financial information.
43	Written Representations - Pro forma prospective financial information	Reference to paragraph 40 within should be changed to paragraphs 40 and 42.
51(a)	Preparing the Assurance Report - Assurance Report Content	A title that clearly indicates the report is an independent limited assurance report.
51(f)	Preparing the Assurance Report - Assurance Report Content	If the stated basis of preparation assurance report is available only to specific users, or is relevant only to a specific purpose, ...
A5	Definitions	Base financial information may not or may not have been previously audited or reviewed.
A9	Preconditions for the Assurance Engagement	... The only exception to this is respect of reports by other parties, including experts, which are included, by consent, in the published financial information offer document .
A15	Pro Forma Financial Information	In the 3 rd bullet point, "There is insufficient time to in which to conduct the engagement to enable the expression of assurance on the pro forma historical financial information itself."
A37	Pro Forma Financial Information	There is a reference to ISAE (NZ) but the number and title of the specific auditing standard that it's referring to is missing.
A43	Prospective Financial Information	Change "extracted" to "derived" as this may better represent the source of the financial information in this case. In several other paragraphs, in our view "extracted and/ or derived" may be appropriate to add instead of "extracted" only given in some case it's not always be possible to easily extract the financial information from the base financial information.
A54	Prospective Financial Information	Reference to 33(b)(v) should be changed to 34(b)(v).
A75	Consent	In the first sentence "audit" report should be changed to "assurance" report.
Appendix 1	Illustrative Engagement Letter	In the first paragraph, change "confirms" to "confirm" and "proposed published financial information" to "proposed published offer document" (noting examples given for the latter are PDS or online Registry Entry). There is a reference to paragraphs "a to d" in section 1, titled "Financial information" but there are no such listed paragraphs in the body of the letter.



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Paragraph	Topic	Comment
		In some places, the tense used in the letter may need to be reassessed given these are proposed scope of services and procedures have not yet been completed for example, use of “consider” rather than “considered” and “will not express an audit opinion” instead of “do not express an audit opinion” (both on page 55).
Appendix 1	Illustrative Engagement Letter	<p>Page 56, reference to “our assurance reports” should be changed to “our independent limited assurance report”.</p> <p>Under the “Written Representations” section (page 56) - the first paragraph refers to “our review and limited assurance engagements”, these are not two separate procedures and/ or engagements, the limited assurance engagement is the review of the Financial Information itself. Also, on page 57 the second paragraph refers to both “our Investigating Accountant’s Report and limited assurance report on the Financial Information” which is in fact the same report.</p> <p>Under the “Consent” section, use of Independent Limited Assurance Report vs. Investigating Accountant’s Report above - recommend that the report name is consistent throughout the letter.</p>
Appendix 2	Illustrative Representation Letter	<p>Consistent to our comment on Appendix 1, the reference to “published financial information” throughout the letter should be to “published offer document” (noting examples given are for PDS or online Registry Entry).</p> <p>On page 60, the 7th bullet refers to the provision of material financial information, financial records, related data and other information with respect to historical and pro forma historical financial information only however this should apply to all financial information under review, i.e. including prospective financial information.</p>
Appendix 3	Illustrative Assurance Report	<p>Recommend the title be changed to “Investigating Accountant’s Independent Limited Assurance Report” or simply “Independent Limited Assurance Report”.</p> <p>Page 65, the title “information subject to assurance” would be better titled as “Limited assurance scope” or “Scope of Financial Information under review”.</p> <p>Page 69, under “Disclaimer”, the word “use” should be changed to “us” in the second last line.</p> <p>We recommend that the sections on “Our Responsibility” and “Our Limited Assurance Engagement” be combined together given the content is related and can be merged.</p>

From: Zowie Pateman <Zowie.Pateman@charteredaccountantsanz.com>

Sent: Wednesday, 17 August 2022 4:01 pm

To: Misha Pieters <Misha.Pieters@xrb.govt.nz>

Cc: Amir Ghandar <Amir.Ghandar@charteredaccountantsanz.com>

Subject: ED NZAuASB 2022-2 Proposed revisions to the definitions of Listed Entity and Public Interest Entity in PES 1

Dear Misha

Further to our call yesterday and your request for our feedback on the above ED, here are our responses to the specific questions raised in the ITC:

1. We agree with carrying forward the extant NZ PIE definition in PES 1 which links to the Tier 1 criteria in XRB A1 because in our view it is sufficiently consistent with the revised global PIE approach in the IESBA Code.
2. We have not identified any categories of entities that are not captured by the extant NZ PIE definition that should be.
3. We have not identified any categories of entities that are captured by the extant NZ PIE definition that should not be.
4. We have no further comments on the PIE revisions to PES 1.

Kind regards

Zowie Pateman FCA

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From: Karen Shires (NZ) <karen.f.shires@pwc.com>
Sent: Tuesday, 16 August 2022 2:53 pm
To: Misha Pieters <Misha.Pieters@xrb.govt.nz>
Cc: Vasana Vanpraseuth <vasana.m.vanpraseuth@pwc.com>; Tracey Crookston <Tracey.Crookston@xrb.govt.nz>
Subject: Re: Comments on the NZ PIE definition

Hi Misha

I remember this issue well. The problem was with the way the NZ definition in XRBA1 is drafted currently. My understanding was that in NZ we would expect all entities that are required to prepare Tier 1 financial statements to be PIE. For for-profit (non large public sector) this would mean all FMC reporting entities with higher public accountability.

XRBA1 includes para 8b from the IASB definition:

b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

Then XRBA1 goes on to include para 10 which I think tries to say regardless of what you may think when you read 8b in NZ you are deemed to be a PIE if you are an FMC reporting entity with higher public accountability.

The problem is with for example securities brokers (there may be others) they are not FMC reporting entities with higher public accountability in NZ. However because they are called out specifically in 8b clients are unsure whether they are a PIE or not. All the other business types are captured under the FMC Act definitions.

Most would not actually hold assets in a fiduciary capacity but clients say we must be caught because securities brokers are listed.

Not sure if this helps or not.

Happy to discuss.
Karen



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The New Zealand Auditing and Assurance Standards
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15 August 2022

To Whom it may concern

Invitation to comment - NZAuASB 2022-2 Proposed revisions to the definitions of Listed Entity and Public Interest Entity in PES-1

KPMG welcomes the opportunity to provide comments on the above mentioned proposed revisions to PES-1.

Our comments to the questions you seek comment on are included below.

Question 1. Do you agree with carrying forward the extant NZ PIE definition in PES1? If not, please provide your reasons.

Other than our comments in response to question 3 below, we have no further comments to make.

Question 2. Are there any categories of entities not captured by the extant NZ PIE definition that you consider should be, when considering the revised global PIE approach in the IESBA Code?

Please describe the category of entity you consider should be added and provide your reasons.

We have no comments to make.

Question 3. Are there any categories of entities that are captured by the extant NZ PIE definition that you consider should not be?

Please describe how you would suggest amending the proposed NZ approach and provide your reasons as to why the category you have identified should not be captured.

Currently the NZ Public Interest Entity ('PIE') definition captures large or publicly accountable not-for-profit ('NFP') reporting entities as defined in XRB A1.

We note the current definition of a PIE for NFP entities is aligned with the older for-profit framework (i.e. based on a financial reporting tier requirement) vs. a risk based framework similar to the new for profit framework, where the classification of an entity as a PIE has been aligned with the entities the regulator has defined as being of higher public accountability ('FMC HPA').

A Charities Services' review in 2021 showed that there are 152 entities that fall under the tier 1 reporting requirements and thus are deemed to be higher risk due to their classification as a PIE.

This disconnect does result in additional costs for those 152 entities due simply to their classification as a Tier 1 reporting entity, rather than with reference to which entities are actually of interest to the public. This is due to additional requirements for entities that are deemed to be higher risk (such as FMC HPA entities) beyond that required for lower risk entities. An example of such a requirement is the appointment of an EQCR to the file.

We do appreciate that the definition of an entity as a PIE is only supposed to impact independence requirements, but in multiple locations in the New Zealand Auditing Standards ('ISA's (NZ)') international requirements that exist only for listed entities has been expanded to also included all FMC HPA entities, in line with the NZ view that these represent the more complex and higher risk entities.

As the for-profit definition of higher risk aligns with the definition of a public interest entity, in the absence of other guidance, an NFP PIE would also be presumed to be a higher risk entity, and similar requirements would be applied.



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These additional costs generally have one of two detrimental effects:

- 1) The result in higher audit fees having to be charged to ensure the client generates a sufficient return for the auditor, which reduces the funds that can be spent on the actual charitable activities; or
- 2) The client loses their auditor as the job is unable to be performed at a profitable level and has to find another auditor willing to take on the work.

We believe these additional costs are of particular relevance in the current climate where NFPs are experiencing declining revenues from their fundraising and donation activities combined with the added cost of having to comply with the new requirements of PBE FRS 48 *Service Performance Reporting*.

Our understanding is the current approach has been taken as a result of the XRB trying to identify an approach that is less complex and so, easy to apply, while causing as little additional costs to NFP entities and their auditors as possible.

We agree with these goals but also note that a simplistic method does not always result in the right approach.

We believe the right place to start is on defining who the public are when we are discussing the public interest. For example:

- 1) Should an entity only be considered in the public interest when its activities impact on the majority of the New Zealand population? Foundation North with its NZ wide funding programmes would be an example of this.
- 2) Should it be based on it providing essential services to a segment of the population whether that is regional, or city based? The Wellington Free Ambulance and Auckland Coastguard would be good examples of such entities.
- 3) Should it be considered at an even lower level than this? For example, a smaller rural town that relies on a volunteer fire service for emergency response.
- 4) Could the level of funding received from the general public also be considered as a driver of public interest? For example, an entity that is funded by a bequest from a high net worth individual versus an entity that is largely funded by a large number of small donations from the general public.

Once a definition of the public has been identified, that can then form the basis for deciding whether an entity would be of interest to the public or not, and as a result drive other risk considerations.

An alternative approach would be to request the regulator of NFP's (apart from public sector entities which are already categorised by the Office of the Auditor General) to define entities it believes meet the PIE definition, similar to how the FMA identified for profit entities that it believes are of higher public accountability.

Question 4. Do you have any other comments on the PIE revisions to PES 1?

We have no additional comments to make.

Yours sincerely

Darby Healey

Partner

Tier 1 charities as at 23 August 2022

Tier 1 Charities (extract from the Charities Act register 23 August 2022) based on the most recent annual return and total expenses greater than \$30,000.

	Charity Name	Activities
1.	Auckland Kindergarten Association Group	Acts as an umbrella / resource body, provides advice / information / advocacy, provides services (e.g., care / counselling), Other - Acts an Umbrella body
2.	Auckland Grammar School Combined Trusts	Provides advice / information / advocacy, provides buildings / facilities / open space, provides human resources (e.g., staff / volunteers), provides services (e.g., care / counselling)
3.	IHC New Zealand	Provides advice / information / advocacy, provides services (e.g., care / counselling), Other - Acts an Umbrella body
4.	Ngā Tahu Charitable Group	Makes grants to organisations (including schools or other charities)
5.	New Zealand Heart Foundation	Sponsors / undertakes research
6.	Roman Catholic Diocese of Auckland Group	Provides religious services / activities
7.	The Selwyn Foundation Group	Provides services (e.g., care / counselling)
8.	Seventh Day Adventist Church in New Zealand 1	Provides religious services / activities
9.	Sisters of Mercy Ministries New Zealand	Provides religious services / activities
10.	St George's Hospital Group	Provides services (e.g., care / counselling)
11.	St John	Provides services (e.g., care / counselling)
12.	The Salvation Army New Zealand Group	Provides religious services / activities
13.	Southern Cross Health Trust Group	Provides services (e.g., care / counselling)
14.	The Horticulture Group	Sponsors / undertakes research
15.	University of Canterbury and Trust Funds Group	Education / training / research
16.	Te Whanau O Waipareira Group	Community development
17.	Waikato Raupatu Lands Trust Group	Acts an Umbrella body
18.	Wellington Free Ambulance Group	Acts an Umbrella body
19.	Wise Group	Provides services (e.g., care / counselling)
20.	Hohepa Homes Trust Board Group	Provides services (e.g., care / counselling)
21.	Braemar Charitable Trust Group	Provides buildings / facilities / open space
22.	Emerge Aotearoa Trust Group	Provides services (e.g., care / counselling)
23.	The Diocese of Auckland Group	Provides religious services / activities
24.	The Skills Organisation Group	Provides advice / information / advocacy
25.	Pinnacle Group	Acts as an umbrella / resource body

	Charity Name	Activities
26.	Central Lakes Trust Group	Makes grants to organisations (including schools or other charities)
27.	Wright Family Charity Group	Provides services (e.g., care / counselling)
28.	National Hauora Coalition Group	Provides services (e.g., care / counselling)
29.	Central Kids Early Education	Provides services (e.g., care / counselling)
30.	SPCA New Zealand	Provides services (e.g., care / counselling)
31.	Trust Horizon Charities Group	Makes grants to organisations (including schools or other charities)
32.	C.L.C Auckland Trust Group	Provides religious services / activities
33.	Central Region Localities Group	Provides services (e.g., care / counselling)
34.	OSPRI New Zealand Limited	Acts as an umbrella / resource body
35.	The Order of St John South Island Region Trust Board	Provides services (e.g., care / counselling)
36.	Midlands Regional Health Network Charitable Trust	Provides services (e.g., care / counselling)
37.	Alliance Health Plus Trust	Health
38.	Emerge Aotearoa Limited	Acts an Umbrella body
39.	New Zealand Assembly of God	Provides services (e.g., care / counselling)
40.	Te Awakairangi Health Network	Provides services (e.g., care / counselling)
41.	Trinity Lands Limited	Acts as an umbrella / resource body
42.	Victoria University of Wellington	Education / training / research
43.	Ta taki Auckland Unlimited Trust	Community development
44.	Comprehensive Care PHO Limited	Provides services (e.g., care / counselling)
45.	Community Living Trust	Provides services (e.g., care / counselling)
46.	New Zealand Methodist Trust Association	Provides religious services / activities
47.	University of Otago	Education / training / research
48.	Pegasus Health (Charitable) Limited	Provides services (e.g., care / counselling)
49.	University of Canterbury	Education / training / research
50.	Dilworth Trust Board	Education / training / research
51.	The King's College Trustees	Education / training / research
52.	Nurse Maude Association	Provides services (e.g., care / counselling)
53.	Diocesan School for Girls	Education / training / research
54.	Primary Industry Training Organisation Incorporated	Education / training / research
55.	Foundation North Grants Limited	Acts an Umbrella body

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	Charity Name	Activities
56.	World Vision of New Zealand Trust Board	Makes grants to organisations (including schools or other charities), provides advice / information / advocacy, provides buildings / facilities / open space, provides human resources (e.g., staff / volunteers), provides services (e.g., care / counselling), sponsors / undertakes research, Other - Acts an Umbrella body
57.	Ta Ora Compass Health	Provides services (e.g., care / counselling)
58.	St Peter's School Trust Board	Education / training / research
59.	CHT Healthcare Trust	Provides services (e.g., care / counselling)
60.	Te Runanga O Toa Rangatira Incorporated	Provides services (e.g., care / counselling)
61.	Pact Group	Provides services (e.g., care / counselling)
62.	VisionWest Community Trust	Provides services (e.g., care / counselling)
63.	Total Healthcare Otara	Provides services (e.g., care / counselling)
64.	CCS Disability Action Incorporated	Acts an Umbrella body
65.	Health Research Council of New Zealand	Sponsors / undertakes research
66.	The Church of Jesus Christ of Latter-day Saints Trust Board	Provides religious services / activities
67.	Nelson Bays Primary Health Trust	Provides services (e.g., care / counselling)
68.	University of Waikato	Education / training / research
69.	St John of God Health Care Incorporated	Provides services (e.g., care / counselling)
70.	St Andrew's Village Trust (Incorporated)	Provides services (e.g., care / counselling)
71.	The Skills Organisation Incorporated	Provides advice / information / advocacy
72.	Auckland Museum Trust Board	Provides buildings / facilities / open space
73.	The Spectrum Foundation	Makes grants to organisations (including schools or other charities)
74.	Pioneer Energy Limited	Energy Generation and sales
75.	Pinnacle Incorporated	Acts as an umbrella / resource body, provides advice / information / advocacy
76.	The University of Auckland	Education / training / research
77.	He Wha nau Manaaki o Tararua Free Kindergarten Association Incorporated	Education / training / research
78.	Presbyterian Support Central	Social services
79.	Te Taiwhenua O Heretaunga Trust	Acts as an umbrella / resource body, makes grants to organisations (including schools or other charities), provides buildings / facilities / open space, provides services (e.g., care / counselling), sponsors /
80.	Health Hawke's Bay Limited	Health - Acts an Umbrella body

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	Charity Name	Activities
81.	Building and Construction Training Fund Incorporated	Education / training / research
82.	St Cuthbert's College Educational Trust Board	Education / training / research
83.	Presbyterian Support (Northern)	Social services
84.	Presbyterian Support Otago Incorporated	Provides services (e.g., care / counselling)
85.	St Andrew's Presbyterian College Board of Governors Incorporated	Provides services (e.g., care / counselling)
86.	THINK Hauora	Provides services (e.g., care / counselling)
87.	The SPCA Trust	Care / protection of animals
88.	IHC New Zealand Incorporated	Provides services (e.g., care / counselling) – people with disabilities
89.	Idea Services Limited	Provides services (e.g., care / counselling) – people with disabilities
90.	Royal New Zealand Foundation of the Blind Incorporated	Provides advice / information / advocacy – people with disabilities
91.	The Auckland Maritime Foundation	Makes grants to organisations (including schools or other charities)
92.	St. Kentigern Trust	Education / training / research
93.	MASH Trust	Provides services (e.g., care / counselling) – people with disabilities
94.	The Cawthron Institute Trust Board	Sponsors / undertakes research
95.	Central Lakes Trust	Makes grants to organisations (including schools or other charities)
96.	Affinity Services Charitable Trust	Provides services (e.g., care / counselling)
97.	Te Roopu Taurima o Manukau Trust	Provides services (e.g., care / counselling)
98.	New Zealand Red Cross Incorporated	Health - Acts as an umbrella / resource body
99.	Barnardos New Zealand Incorporated	Provides services (e.g., care / counselling) – children and young people
100.	Roman Catholic Diocese of Auckland Ecclesiastical Goods Trust	Provides religious services / activities
101.	Kristin School Charitable Trust	Provides services (e.g., care / counselling) – children
102.	National Collective of Independent Women's Refuges Nga Whare Whakaruruhau O Aotearoa Incorporated	Provides services (e.g., care / counselling)
103.	Massey University	Education / training / research
104.	Manukau Institute of Technology Limited	Education / training / research
105.	Māori Television Services	Acts an Umbrella body

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	Charity Name	Activities
106.	The Priory in New Zealand of the Most Venerable Order of the Hospital of St John of Jerusalem	Provides buildings / facilities / open space, provides human resources (e.g., staff / volunteers), Provides services (e.g., care / counselling)
107.	The Order of St John Northern Region Trust Board	Provides services (e.g., care / counselling)
108.	The Order of St John Central Region Trust Board	Provides services (e.g., care / counselling)
109.	Lincoln University	Sponsors / undertakes research
110.	Kahungunu Asset Holding Company Limited	Makes grants to organisations (including schools or other charities), Provides advice / information / advocacy, provides other finance (e.g., investment funds), Sponsors / undertakes research, Other - Acts an umbrella organisation
111.	The Electrical Training Company Limited	Provides advice / information / advocacy
112.	Trust Horizon	Makes grants to organisations (including schools or other charities)
113.	National Assistance Fund	Makes grants to organisations (including schools or other charities)
114.	Waikato Raupatu Lands Trust	Makes grants to organisations (including schools or other charities)
115.	WellSouth Primary Health Network	Acts as an umbrella / resource body, makes grants to organisations (including schools or other charities), Provides advice / information / advocacy, provides services (e.g., care / counselling), Sponsors / undertakes research,
116.	The Isaac Conservation and Wildlife Trust	Environment / conservation – acts as an umbrella body
117.	Competenz Trust	Provides services (e.g., care / counselling)
118.	Royal New Zealand Plunket Trust	Provides advice / information / advocacy - children
119.	Te Kaupapa Mahitahi Hauora-Papa o te Raki Trust Board	Provides services (e.g., care / counselling) - health
120.	ProCare Health (PHO) Limited	Acts as an umbrella / resource body - health
121.	New Zealand Community Trust	Makes grants to organisations (including schools or other charities)

Those on the boundary of the search parameters:

	Charity Name	Total expenditure per Charities Services Database
122.	Pasifika Medical Association Trust	\$ 29,586,671
123.	The Royal New Zealand Society for the Prevention of Cruelty to Animals Incorporated	\$ 29,983,000
124.	East Health Trust Board	\$ 29,790,290
125.	South Link Education Trust Board	\$ 28,579,743
126.	Search and Rescue Services Limited	\$ 29,533,556

Agenda item 5.5 – Differential requirements in PES 1 and ISAs (NZ)

PIE independence requirements in PES 1

SECTION 410 FEES
Total Fees – Fee Dependency When for 2 consecutive years total fees from a PIE audit client represent more than 15% of total fees received by the firm – determine whether a pre-issuance review is required as a safeguard to reduce the threats to an acceptable level.
Transparency of information regarding fees* for audit clients that are PIEs * fees for the audit of the financial statements and fees for other services <ul style="list-style-type: none">• Communication with TCWG• Fee dependency• Considerations for Review Clients
SECTION 524 – EMPLOYMENT WITH AN AUDIT CLIENT
<ul style="list-style-type: none">• Key audit partner of the PIE client joins the client as a director or officer or employee• Senior or Managing Partner of the firm joins the PIE audit client as director or officer or employee• Business combination exception
SECTION 540 – LONG ASSOC PERSONNEL (INCL PARTNER ROTATION) WITH AN AUDIT CLIENT
<ul style="list-style-type: none">• Seven year ‘time-on’ period, then a ‘cooling off’ period for certain roles (i.e., (a) engagement partner, (b) EQR individual, (c) other key audit partner)• ‘Time on’ period not restarted unless the individual ceases in (a)-(c) role above for a minimum period.• Exception to R540.5 in rare circumstances• When an audit client becomes a PIE• Regulatory exception to R540.5
SECTION 600 – PROVISION OF NON-ASSURANCE SERVICES (NAS) TO AN AUDIT CLIENT
<ul style="list-style-type: none">• Reasonable and informed third party test used to evaluate a self-review threat (SRT) created by providing a NAS to a PIE.• Cannot provide NAS to a PIE if that service might create a SRT to the financial statement audit.• Providing advice and recommendations re: matters arising during the audit• Communication with TCWG required before providing a NAS to PIE audit client• Communication process may be agreed with TCWG.• Before accepting the engagement to provide NAS must provide TCWG of the PIE with information to make an informed assessment about the firm’s independence.• A NAS shall not be provided to a PIE unless TCWG agree with the firm’s conclusion re: independence and the provision of that service.• Confidentiality provisions• Where the NAS creates a threat to independence that cannot be eliminated or reduced to an acceptable level – either decline the NAS or end the audit engagement• Audit client that later becomes a PIE
Subsection 601 – Accounting and Bookkeeping Services
<ul style="list-style-type: none">• A firm or network firm shall not provide accounting and bookkeeping services to a PIE audit client.• Statutory financial statements exception
Subsection 603 – Valuation Services
<ul style="list-style-type: none">• A firm or network firm shall not provide a valuation service to an audit client that is a PIE if the provision of such valuation service might create a SRT.

Agenda item 5.5 – Differential requirements in PES 1 and ISAs (NZ)

<ul style="list-style-type: none">• An e.g., of an action that might be a safeguard to address an advocacy threat created by providing a valuation service to a PIE audit client is using professionals who are not audit team members to provide the service.
Subsection 604 – Tax Services
<ul style="list-style-type: none">• Tax calculations (current and deferred tax) for a PIE audit client prohibited.• A firm or network firm shall not provide tax advisory and tax planning services to a PIE audit client if the provision of such services might create a SRT.• A firm or network firm shall not perform a valuation for tax purposes for a PIE audit client if the provision of that service might create a SRT.• Advocacy threat safeguard – using members who are not audit team members to provide the service, obtaining a pre-clearance from tax authorities.• A firm or network firm shall not provide assistance in the resolution of tax disputes to a PIE audit client if the provision of the assistance might create a SRT.• An example of an action that might be a safeguard to address an advocacy threat for a PIE audit client is using professionals who are not on the audit team to provide the service.• A firm or network firm shall not provide tax services that involve assisting in the resolution of tax disputes to a PIE audit client if the services involve acting as an advocate before a tribunal or court.• Para R604.26 (immediately above) does not preclude a firm or network firm from having a continuing advisory role in relation to the matter being heard before the tribunal or court, for example, responding to specific requests for information.
Subsection 605 – Internal Audit Services
<ul style="list-style-type: none">• A firm or network firm shall not provide internal audit services to a PIE if the service might create a SRT.• Examples of services prohibited under paragraph R605.6 are included in R605.6A1.
Subsection 606 – Information and Technology Systems Services
<ul style="list-style-type: none">• A firm or network firm shall not provide IT systems services to a PIE if the service might create a SRT.
Subsection 607 – Litigation Support Services
<ul style="list-style-type: none">• A firm or network firm shall not provide litigation support services to a PIE audit client if the services might create a SRT.• An example of a service that is prohibited because it might create a SRT is providing advice in relation to a legal proceeding where there is a risk that the outcome of the service affects quantification of any provision or other amount in the financial statements on which the firm will express an opinion.• An e.g., of an action that might be a safeguard to address an advocacy threat by providing a litigation support service is using a professional who was not an audit team member to perform the service.• A firm or network firm, or an individual within a firm or network firm shall not act as an expert witness for a PIE audit client unless the circumstances set out in 607.7A3 apply.
Subsection 608 – Legal Services
<ul style="list-style-type: none">• A firm or network firm shall not provide legal advice to a PIE if the service might create a SRT.• The considerations in 608.5A1 and 608.5 A3 to 608.6A1 are also relevant in addressing advocacy threats that might be created when providing legal advice to a PIE audit client.• A firm or network firm shall not act in an advocacy role for a PIE audit client in resolving a dispute or litigation before a tribunal or court.• corporate finance services (e.g., promoting, dealing in, underwriting shares etc) for a PIE are prohibited.• a firm or network firm shall not provide advice re: corporate finance services where the effectiveness of the advice depends on a particular accounting treatment or presentation in the financial statements• A firm or network firm shall not provide corporate finance services to a PIE audit client if the provision of such services might create a SRT.• E.g., a safeguard to address advocacy threats created by providing CF services to a PIE audit client is using professionals who are not on the audit team.

Agenda item 5.5 – Differential requirements in PES 1 and ISAs (NZ)

ISAs (NZ) and FMC HLPAs

ISA (NZ)	Details
<p>Quality management in an audit of financial statements ISA (NZ) 220 (Revised) (A103)</p>	<p><u>Engagement Quality Review (EQR)</u> PES 3 requires an EQR for certain types of engagements including audits of FMC HLPAs entities. (FMA has said also for all FMC entities)</p>
<p>Fraud ISA (NZ) 240 (NZ A30.1)</p>	<p>The risks of fraud in revenue recognition may be greater in some entities than others. For example, there may be pressures or incentives on management to commit fraudulent financial reporting though inappropriate revenue recognition in the case of FMC reporting entities considered to have a higher level of public accountability when, for example, performance is measured in terms of year-over-year revenue growth or profit.</p>
<p>Communication with those charged with governance (TCWG) ISA (NZ) 260 (Revised) NZ 17.1</p>	<p>In the case of FMC HLPAs, the auditor shall communicate with those charged with governance:</p> <ul style="list-style-type: none"> (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor’s professional judgement, may reasonably be brought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firm to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and (ii) In respect to threats to independence that are not at an acceptable level, the actions taken to address the threats, including actions that were taken to eliminate the circumstances that create the threats or applying safeguards to reduce the threats to an acceptable level.

Agenda item 5.5 – Differential requirements in PES 1 and ISAs (NZ)

<p>Communicating Deficiencies in internal control with TCWG and management ISA (NZ) 265 A9. A13.</p>	<p>Law or regulation in some jurisdictions may establish a requirement (particularly for audits of FMC HLPAs) for the auditor to communicate to those charged with governance or to other relevant parties (such as regulators) one or more specific types of deficiency in internal control that the auditor has identified during the audit.</p> <p>In addition, for FMC HLPAs, those charged with governance may need to receive the auditor’s written communication before the date of approval of the financial statements in order to discharge specific responsibilities in relation to internal control for regulatory or other purposes.</p>
<p>Initial Audit Engagements – Opening Balances ISA (NZ) 510</p>	<p>See Illustrations of Auditor’s Reports with Modified Opinions – Illustration 1 and Illustration 2</p>
<p>Going Concern ISA (NZ) 570 (Revised)</p>	<p>See Illustration 1, Unmodified opinion when a material uncertainty exists and disclosure in the financial statements is adequate.</p> <p>See Illustration 2, Qualified Opinion when a material uncertainty exists and the financial statements are materially misstated due to inadequate disclosure.</p> <p>See Illustration 3, Adverse Opinion when a material uncertainty exists and is not disclosed in the financial statements.</p>
<p>Special Considerations – Audits of Group Financial Statements (including the work of component auditors) ISA (NZ) 600</p>	<p>Illustration – example of a qualified opinion where the group engagement team is not able to obtain sufficient appropriate audit evidence on which to base the group audit opinion.</p>
<p>Forming an opinion and reporting on financial statements ISA (NZ) 700 (Revised)</p>	<p>See NZ5.2, NZ30.1, NZ40(b)(1), NZ409(c)(1), NZ46.1, NZ50(l)(l), NZA40.1, NZA43.1, NZA61.1, NZA62.1 and [NZ] Illustration 1 and 2.</p>
<p>Communicating Key Audit Matters in the Independent Auditor’s Report ISA (NZ) 701</p>	<p>See NZ5.1, NZ6.1, NZA 59.1</p>
<p>Modifications to the opinion in the independent auditor’s report ISA (NZ) 705 (Revised)</p>	<p>See [NZ]Illustration 1-3</p>

Agenda item 5.5 – Differential requirements in PES 1 and ISAs (NZ)

Emphasis of matter paragraphs and other paragraphs in the independent auditor's report ISA (NZ) 706 (Revised)	See A17 and Illustration of auditor's report that includes a KAMs section, EOM paragraph and other matter paragraph.
The auditor's responsibilities relating to other information ISA (NZ) 720 (Revised)	See NZ21.1, NZ22.1 [NZ] Illustrations 1-7
Special considerations – audits of financial statements prepared in accordance with special purpose frameworks ISA (NZ) 800 (Revised)	See NZA16.1, NZA18.1, [NZ] Illustrations 1-3
Special considerations – audits of single financial statements and specific elements, accounts or items of a financial statement ISA (NZ) 805	See NZA20.1, NZA22.1, [NZ] Illustrations 1-3
Engagements to Report on Summary Financial Statements ISA (NZ) 810 (Revised)	See [NZ] Illustration 1

INTRODUCTION

The XRB and FMA jointly issued two reviews of the enhanced auditor's report in NZ in 2017 and 2019. The purpose of this research is to investigate auditor's reporting practices a few more years into the implementation of the auditor reporting requirements. Specifically, with respect to the reporting of key audit matters (KAMs), we are interested in understanding to what extent KAM communications avoided using overly technical terms, were specific to the circumstances of the entity, avoided the use of boilerplate language, have changed over time, or have been affected by Covid. We also reviewed the audit opinions issued, reporting related to going concern, and voluntary reporting practices in areas of materiality, audit scope, and reporting outcome of audit procedures within individual KAMs.

We reviewed and analysed 470 audit reports of 235 entities over the period 2020 to 2021. The sample included 127 NZX listed entities, 72 non-listed entities in the banking, insurance, and financial services sector, 10 issuers of debt securities, 4 derivative issuers, and 22 other non-listed entities that are required to comply with the enhanced reporting requirements. Appendix A provides a more detailed overview of the sample.

EXECUTIVE SUMMARY

With respect to KAMs reporting (number and type), our findings show that:

- The number and types of KAMs reported for NZ entities have stayed relatively stable. On average, each audit report contained two KAMs, and the average number of KAMs was similar across different entity types. The most reported KAMs types related to valuations of goodwill, intangible assets and property, plant and equipment (PPE). The most reported KAM types varied by industry sectors.

We looked at how KAMs have changed over time. We found that:

- There was a high level of ‘stickiness’ in the KAMs reported – on average, 84% of KAMs reported in 2021 were repeated from 2020. In other words, the majority of KAMs reported for each entity tend to be recurring/persistent.
- In 2021, 19% of the sample reported one new KAM, 4% reported two new KAMs, and less than 1% of the sample reported three or four new KAMs, compared to 2020. A KAM that was reported in several audit reports and was new to 2021 related to the accounting for Software-as-a-Service (SaaS) arrangements.

With respect to the level of standardised language used in the KAM narratives:

- There was on average 66% of repeated textual content in the recurring KAMs reported in 2021. The level of boilerplate content in the KAMs in 2021 compared to 2020 was lower for listed entities compared to non-listed entities.
- When we compared a KAM to a similar KAM within the same KAM type, the average level of textual similarity in the KAM narratives is around 50%. Similar KAMs contained a higher level of boilerplate wordings when they were disclosed by the same audit firm or when the audited entities were from a same industry.
- Overall, although there was some boilerplate content in the KAMs disclosed year-to-year and relative to peer entities, there was a balance of comparability and entity-specificness in the KAMs reported.

We also examined the length and reading ease of the KAMs:

- The average length of a KAM was between 200 to 400 words for most entities. Valuation of PPE was the longest KAM type during our period of study. This was to some extent driven by the impact of Covid which caused significant valuation uncertainties for fixed assets. Accordingly, listed entities in the properties sector had the longest length per KAM relative to entities in other industries during this period.
- An analysis of the KAM narratives using the Flesch reading-ease index revealed that the KAMs reported in 98% of the audit reports were very difficult to read, and about half of the audit reports contained KAMs that are best understood by professionals or readers with advanced university degrees. These findings suggest that KAM communications may not be easily understandable by all users of the audit report.

To understand whether KAMs provided entity specific information:

- We looked at the level of content specificity in the KAM narratives. Specificity was measured as the number of times a specific entity was mentioned in the KAMs. On average, a KAM for a listed entity made five references to a specific organisation, location, monetary value, date, percent or person. KAMs on the valuation of PPE, goodwill and intangibles, financial instruments and business combinations contained more specific information than other types of KAMs.
- We looked at the extent of cross referencing between KAMs and sections of financial statements. Eighty percent of the KAMs reported made a reference to a note, and around 70% mentioned ‘financial statements’ or ‘financial reports.’ The extent of cross-referencing between KAMs and financial statement disclosures varied by KAM types.

With respect to voluntary reporting:

- In 2021, 49% of the sampled audit reports reported on audit materiality – a slight decline compared to 2019. We saw the use of a weighted-average approach in determining audit materiality during 2020 and 2021 to tackle the temporary effect of Covid on the key performance metrics. Other findings on materiality (e.g., commonly used benchmarks) were similar to those reported in the 2019 XRB/FMA review.
- The overall level of reporting on audit scope in 2021 was similar to that in 2019.
- In 2021, 22% of the KAMs sampled included a disclosure regarding outcome of audit procedures within individual KAMs. Only 2% of the outcomes disclosed noted corrections/additions to the financial statements; 98% expressed affirmative outcomes.

Regarding audit opinions, we found that:

- The proportions of audit reports expressing clean audit opinions, qualifications and disclaimers in 2020 and 2021 were similar to those reported in 2019.
- Emphasis of matter (EOM) paragraphs were used more often in 2020 and 2021 compared to 2019. Auditors expressed EOMs over the uncertainties brought about by Covid, which to some extent explained the higher number of EOMs during this period.

We evaluated the risks arising from Covid and climate change on the reporting of KAMs, and found that:

- A high proportion of audit reports contained discussions of Covid in the KAMs disclosed (60% in 2020, 39% in 2021). Valuations of assets, including PPE, intangibles, goodwill and other assets were most impacted by the uncertainty brought about by Covid.
- There is a low level of reporting on climate-related issues in the KAMs reported in NZ, compared to some overseas jurisdictions (e.g., the UK).

Finally, on the reporting of going concern, we found that the frequencies of material uncertainty related to going concern (MURGC) and going concern KAMs reported in 2020 and 2021 were comparable to those reported in prior periods.

KEY AUDIT MATTERS (KAMs) REPORTING

KAMs provide transparency about the matters that, in the auditor’s professional judgement, were of most significance in the audit of the financial statements. KAMs are selected by the auditor from the matters communicated with those charged with governance. When selecting KAMs to report, the auditor considers: areas with a higher risk of material misstatement, significant auditor judgements relating to areas in the financial statements that involved significant management judgements, and the effect on the audit of significant events or transactions that occurred during the period.

The following provides an overview of the frequency and types of KAMs for entities in our sample (refer to appendix).

Number of KAMs

The median (mean) total number of KAMs reported within our sample period was 2 (1.76). As shown in Figure 1a, most entities had one or two KAMs. The average number of KAMs reported has remained stable since the introduction of KAM reporting in 2016. In 2021, twelve percent of the sample had three KAMs, and less than 5 percent of the sample had four or more KAMs. In 2020, the proportion of entities with four or more KAMs was slightly higher. Overall, the distribution of the number of KAMs in 2020 and 2021 was comparable.

Figure 1b shows the median and maximum number of KAMs reported for each entity type. The average number of KAMs was similar across the entity types (median being one or two KAMs). Listed entities and non-listed banks had the highest number of KAMs reported (six KAMs), whereas entities with a lower profile, such as property schemes and forestry schemes, had one KAM as the maximum number reported.

Figure 1c shows the number of KAMs for listed entities by industry sector. Banking and financial services sector had the highest number of KAMs on average, reflecting the complexity of the audit of the financial sector. The insurance sector had a slightly higher median (2.5) than the rest of the industries, which had one to two KAMs on average.

KAM types

Figure 2 shows the distribution of KAM topics. A total of 437 (389) KAMs were reported in 2020 (2021). The most common KAM type related to impairment and valuation of goodwill and intangible assets, making up 13% (15%) of the total KAMs reported in 2020 (2021). Valuation of property,

Figure 1a: Distribution of KAMs number

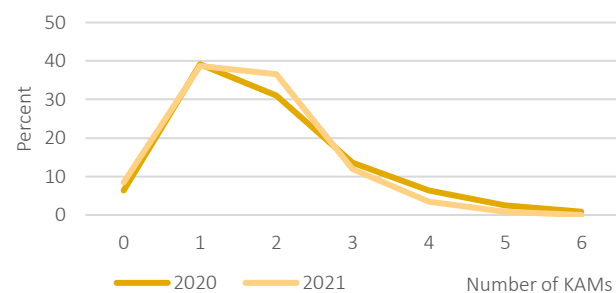


Figure 1b: Number of KAMs by entity type



Figure 1c: Number of KAMs by industry

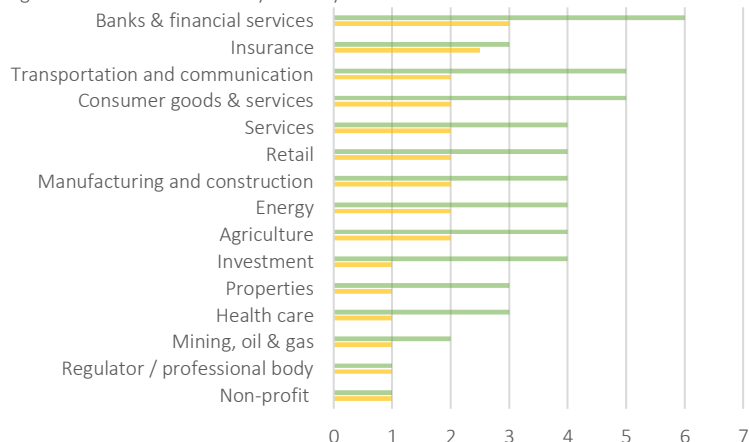
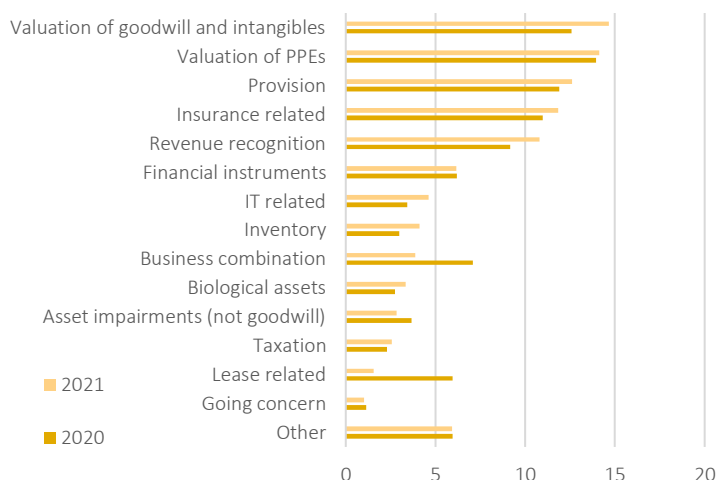


Figure 2: KAM topics



plant and equipment (PPE) was the second most common KAM type, with about 14% of the KAMs falling in this category in both years. Other KAM types included measurement of provision/allowance, revenue recognition, accounting for business combinations (such as acquisitions, investments in joint ventures, etc.), and accounting for leases. The KAM types reported were broadly consistent with the XRB's previous findings.

Table 1a shows the most common KAM types for each entity type. Banks and non-bank financial service providers commonly had provision and IT related KAMs. Valuation of goodwill and intangible asset, and PPE valuation were the most common for listed entities. Insurance-related KAMs were the most common for entities in the insurance sector. Certain entities had a specific KAM type reported, e.g., valuation of PPE for property schemes and valuation of biological assets for forestry schemes. Overall, the KAMs identified by the auditors were specific to the nature of the entity's business.

Table 1a: Common KAMs by entity type

	Most common KAM	Percent	2 nd Most common KAM	Percent
<i>Banks</i>	Provision	56.86	IT related	29.41
<i>Non-bank deposit takers</i>	Provision	68.09	IT related	14.89
<i>Insurance</i>	Insurance related	71.31	Provision	8.20
<i>Listed entities</i>	Goodwill and intangible assets	20.6	Valuation of PPE	14.6
<i>Debt securities</i>	Valuation of PPE	54.76	Business combination	14.29
<i>Derivative issuers</i>	Revenue recognition	75	Lease related	12.5
<i>Others (incl. co-operatives)</i>	Revenue recognition	29.55	Valuation of PPE	13.64
<i>Property schemes</i>	Valuation of PPE	100		
<i>Forestry schemes</i>	Biological assets	100		

Table 1b shows the most common KAM types for listed entities by industry. Goodwill and intangible assets related KAMs were the most common for many industries, including consumer goods & services, health care, manufacturing and construction, services, and regulator/professional body. Valuation of PPE was the most frequently reported KAM type for the following sectors: energy, properties, and transportation and communication. Entities in the agriculture sector had biological assets as the most common KAM type. Similar to non-listed banks and financial institutions, listed banks and financial services providers also most frequently received provision and IT related KAMs. Overall, these patterns in the KAM types reported for each industry are largely consistent with findings from the previous joint XRB and FMA research findings.

Table 1b: Common KAMs for listed entities by industry

	Most common KAM	Percent	2 nd Most common KAM	Percent
<i>Agriculture</i>	Biological assets	25	Goodwill and intangible assets	18.33
<i>Banks & financial services</i>	Provision	48.57	IT related	14.29
<i>Consumer goods & services</i>	Goodwill and intangible assets	28.57	Business combination	15.71
<i>Energy</i>	Valuation of PPE	29.27	Other	21.95
<i>Health care</i>	Goodwill and intangible assets	47.62	Revenue recognition	23.81
<i>Insurance</i>	Insurance related	60	Taxation	40
<i>Investment</i>	Financial instruments	34.15	Valuation of PPE	17.07
<i>Manufacturing and construction</i>	Goodwill and intangible assets	27.59	Inventory	13.79
<i>Mining, oil & gas</i>	Asset impairments (not goodwill)	71.43	Revenue recognition	28.57
<i>Non-profit</i>	Financial instruments	100		
<i>Properties</i>	Valuation of PPE	69.05	Goodwill and intangible assets	9.52
<i>Regulator / professional body</i>	Goodwill and intangible assets	100		
<i>Retail</i>	Inventory	32	Lease related	20
<i>Services</i>	Goodwill and intangible assets	38.46	Revenue recognition	28.21
<i>Transportation and communication</i>	Valuation of PPE	28.57	Revenue recognition	19.05

KAM communications over time

To understand how KAMs have changed over time, we compared the KAMs reported in 2021 to those reported in 2020 for each entity.

Repeated KAMs

To evaluate the stickiness of the reported KAMs (in other words, how persistent are the reported KAMs), we identified the number of repeated KAMs and the number of new KAMs disclosed in 2021 for each entity by comparing the KAM headings this year to those disclosed in the year before. Percent of repeated KAMs for each entity in 2021 is the number of repeated KAMs disclosed in 2021 divided by the total number of KAMs reported in 2021.

An entity with 100% repeated KAMs would have disclosed the same KAM items in 2021 and 2020, whereas an entity with zero percent of repeated KAMs would have reported completely different KAMs in 2021 and 2020.

In Table 2a, we report the average percent of repeated KAMs by entity type. Overall, results suggest a high level of stickiness in the KAMs reported, especially for property schemes, forestry schemes, banks, insurance, and other financial institutions. The overall mean percent of repeated KAMs in 2021 was 84% for entities in our sample.¹

Table 2a: Reporting of repeated KAMs

	Average % of repeated KAMs in 2021
<i>Derivative issuers</i>	67
<i>Other (incl. co-operatives)</i>	75
<i>Listed entities</i>	82
<i>Debt securities</i>	82
<i>Non-bank deposit takers</i>	86
<i>Insurance</i>	89
<i>Banks</i>	92
<i>Forestry schemes</i>	100
<i>Property schemes</i>	100
<i>Overall</i>	84

New KAMs

Table 2b shows the number of new KAMs reported in 2021 by entity type. Of the 125 listed entities, 27 reported one new KAM, six reported two new KAMs, one had three new KAMs, and one had four new KAMs in 2021. Taking the sample as a whole, 23% of the sample had one or two new KAMs in 2021, while those with three or more new KAMs were less than 1%. These results suggest that KAMs do change over time for some entities but the majority of the KAMs reported tend to be sticky (i.e., reported repeatedly) over time.

The new KAMs reported were mostly within the common KAM types (including impairment of assets, income recognition, accounting for leases, taxes, and provisions) and specific to the circumstances of the auditee (e.g., arising from business combinations, business closure, or going concern assessments).

Table 2b: Number of new KAMs

	Number of new KAMs in 2021 compared to 2020			
	= 1	= 2	= 3	= 4
<i>Listed entities</i>	27	6	1	1
<i>Insurance</i>	6	1	0	0
<i>Other (incl. co-operatives)</i>	6	0	0	0
<i>Derivative issuers</i>	2	0	0	0
<i>Non-bank deposit takers</i>	2	2	0	0
<i>Banks</i>	1	0	0	0
<i>Debt securities</i>	1	0	1	0
<i>Forestry schemes</i>	0	0	0	0
<i>Property schemes</i>	0	0	0	0
<i>Total number of entities</i>	45	9	2	1
<i>% of sample</i>	19%	4%	<1%	<1%

We noted one new KAM that emerged in 2021 related to the accounting for Software-as-a-Service (SaaS) arrangements, for which an authoritative guidance was newly released by the International Financial Reporting Interpretations Committee (IFRIC) in April 2021. Four entities had a SaaS-related KAM reported in 2021.

¹ We noticed that a matter may be described differently year-to-year. We categorised a KAM as repeated if the same topic had been disclosed in the previous year, even when the wordings used to describe the KAM (heading) were different. We noted 31 cases where a repeated KAM was described in a different way in the KAM heading in 2021 compared to 2020. An example is 'Impairment of goodwill and brands' and 'Goodwill and brands.'

Boilerplate language in KAMs

The inclusion of KAMs in the auditor's report was intended to enhance the communicative value of the report by being less boilerplate, and providing more specific, useful and relevant information about the audit.

To evaluate the use of boilerplate (i.e., standardised) language in auditors' reporting of KAMs, we analysed the KAM section of the audit report using WCopyFind. WCopyFind is a programme that detects identical texts in a pair of documents it compares. It generates a comparison report and textual similarity scores for each pair of documents it compares.² We used this software to identify repeated/reused texts in the KAMs in 2021 by comparing them to the KAMs in 2020 for each entity.

Comparing the KAMs year-to-year for each entity revealed some standardisation in the wordings used by the auditors in reporting KAMs. Nevertheless, the wordings used in the KAM disclosures were rarely 100% identical, which suggests for most entities, KAMs were revised year-to-year to include disclosures more specifically related to the year of audit.

Table 3a summarises the median KAM textual similarity scores. Forestry schemes, property schemes, and non-listed banking, insurance and financial institutions had higher similarity scores in their KAM disclosures than listed entities and derivatives issuers in the year of 2021.

Within listed entities, health care sector had the highest median similarity score, whereas entities in mining, oil & gas had the lowest similarity scores. We note that because we compared the KAM section as a whole, the higher the number of new KAMs in 2021 compared to 2020, the lower the textual similarity would be.

To further assess the extent of standardised language in the recurring KAMs, we restricted our analysis to 155 entities that had 100% repeated KAM items in 2021. As shown in Table 3b, the median textual similarity score for this restricted sample was 66%.

Listed entities had a lower proportion of standardised language in their repeated KAMs compared to most of the non-listed entity types. For smaller entities, the KAMs reported had become highly standardised and may potentially become less useful to stakeholders over time when the KAM disclosures are mostly identical year-to-year.

Table 3a: Year-to-year KAM textual similarity

By entity type		Average Similarity Score
	Forestry schemes	93
	Property schemes	87.5
	Banks	81
	Insurance	67.5
	Non-bank deposit takers	66.5
	Debt securities	60
	Listed entities	51.5
	Other (incl. co-operatives)	47.5
	Derivative issuers	11
	Overall	54
By industry		Average Similarity Score
	Health care	80
	Energy	73
	Services	69
	Regulator / professional body	60
	Investment	55
	Properties	54
	Insurance	51
	Non-profit	51
	Banks & financial services	49
	Agriculture	44
	Transportation and communication	41.5
	Retail	34
	Manufacturing and construction	32
	Consumer goods & services	29
	Mining, oil & gas	19

Table 3b: Year-to-year KAM textual similarity for entities with 100% repeated KAMs

	Average Similarity Score
Derivative issuers	49
Listed entities	58.5
Debt securities	76
Banks	81
Insurance	82
Property schemes	87.5
Non-bank deposit takers	88
Other (incl. co-operatives)	88.5
Forestry schemes	93
Overall	66

² A detailed explanation on how WCopyFind works is available here https://plagiarism.bloomfieldmedia.com/How_WCopyfind_and_Copyfind_Work.pdf
We required the 'shortest phrase to match' to be four words.

Diversity of KAM communications

In reviewing the KAMs reported, we noticed some diversity in the communication of KAMs on similar topics, as KAMs differed in length and the level of specificity, which we discuss in more detail in the next section. While we saw diversity in the communications of KAMs, there were also some standardised wordings used in the reporting of similar KAMs.

To gain an understanding of the extent of similarity and comparability of the KAM narratives on similar matters, we computed an average cosine similarity score for each KAM of an entity in a year by comparing it to all other KAMs on the same topic in that year disclosed for other entities. To estimate the level of similarity in the narratives between a pair of KAMs, we used the doc2vec model, following the method discussed in Guzman and Li (2022).³

Table 4a: Average % of textual similarity for similar KAMs

	Match on KAM type	Match on KAM type & industry	Match on KAM type & auditor
2020	51	60	60
2021	52	59	61

As shown in Table 4a, the average textual similarity of a KAM compared to other KAMs on the same topic is about 50%. When we required the comparison to match on industry or auditor, the average similarity level was about 60%. The level of textual similarity between a KAM and its peers also varied by KAM types. As shown in Table 4b, for most KAM types, the textual similarity levels were higher for similar KAMs disclosed by the same audit firm and for similar KAMs in the same industry.

Table 4b: Average % of textual similarity by KAM type

	Match on KAM type	Match on KAM type & industry	Match on KAM type & auditor
<i>Inventory</i>	65	72	71
<i>Going concern</i>	63	35	34
<i>IT related</i>	63	71	74
<i>Insurance related</i>	62	63	68
<i>Taxation</i>	56	-	55
<i>Biological assets</i>	55	60	71
<i>Provision</i>	54	63	63
<i>Revenue recognition</i>	52	59	59
<i>Asset impairments (not goodwill)</i>	52	63	-
<i>Business combination</i>	50	38	60
<i>Valuation of PPE</i>	49	56	56
<i>Lease related</i>	49	-	-
<i>Valuation of goodwill and intangibles</i>	49	56	58
<i>Financial instruments</i>	46	64	55
<i>Other</i>	35	39	44

Overall, the results indicate a degree of textual similarity among KAMs on similar topics, and the level of textual similarity was higher when the clients were from the same industry and when the audit reports were issued by the same audit firm.

Two interpretations can be made from these findings. First, a higher level of textual similarity across similar KAMs indicates higher comparability between similar KAMs for different entities. Comparability may enhance the understandability of a KAM when users of the audit reports evaluate the financial information of different entities that had the same type of KAM.⁴ On the other hand, higher levels of textual similarity indicate more standardised language in the KAMs disclosed. Higher levels of generic, boilerplate language may hinder the usefulness and entity-specificness of the information provided in a KAM.

Overall, there seems to be a good balance between comparability and entity-specificness in the KAMs reported.

³ Guzman, J., & Li, A. (2022). Measuring Founding Strategy. Management Science. <https://doi.org/10.1287/mnsc.2022.4369>

⁴ The Conceptual Framework defines comparability as the “qualitative characteristic that enables users to identify and understand similarities in, and differences among, items”. It further states that “information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.” (<https://www.ifrs.org/content/dam/ifrs/meetings/2015/june/iasb/disclosure-initiative/ap11f-principles-disclosure-comparability.pdf>); see also De Franco, G., Kothari, S. P., & Verdi, R. S. (2011). The benefits of financial statement comparability. Journal of Accounting research, 49(4), 895-931.

KAM understandability

To gain an understanding of the length, readability, and linguistic complexity of the KAMs disclosed, we looked at the length of the KAMs reported, as well as the reading ease of the KAM narratives.

Length

As shown in Figure 3, the average length per KAM was between 200 and 400 words for most entities. The range of the average number of words per KAM reported was larger for listed entities, issuers of debt securities, insurance, banking, and financial services providers compared to the other entity types.

Within listed entities, one industry that stood out was the properties sector, which had the highest average KAM length in the two years we analysed. Entities in the properties sector, namely Kiwi Property Group (2021,2020), Investore Property (2020), and Metlifecare (2021), had the highest average number of words per KAM in the sample. These entities were all audited by PwC and had one KAM reported on the material valuation uncertainty in investment property valuations relating to COVID-19. SkyCity Entertainment Group Limited (2021) had the higher average length per KAM in the services industry. On the whole, there was not a big

variation in the average length of KAMs across different industries.

In terms of categories (shown in Table 5), KAMs on valuation of assets, including PPE, goodwill and intangibles, were the longest on average during the 2020-2021 period. This was to some extent due to the Covid pandemic which brought about material uncertainty over the valuations of assets.

Readability

To assess the readability of the KAMs, we computed a Flesch reading-ease score for each audit report's KAM disclosures.⁵ Less readable materials contain more complex sentences and more difficult words. Based on the Flesch reading-ease formula, a lower score indicates lower readability, as shown in Figure 4 (Flesch, 1948).⁶

"Reading Ease" Score	Description of Style
0 to 30	Very difficult
30 to 50	Difficult
50 to 60	Fairly difficult
60 to 70	Standard
70 to 80	Fairly easy
80 to 90	Easy
90 to 100	Very easy

Table 6 reports our findings on the readability of KAM disclosures. As shown in Table 6a, narratives on KAM(s)' description and response had a score of 30 or below in over 98% of the sample, suggesting that most of the KAMs reported are very difficult to read. In

Figure 4: Flesch reading-ease score description

Figure 3a: Average number of words per KAM by entity type



Figure 3b: Average number of words per KAM by industry

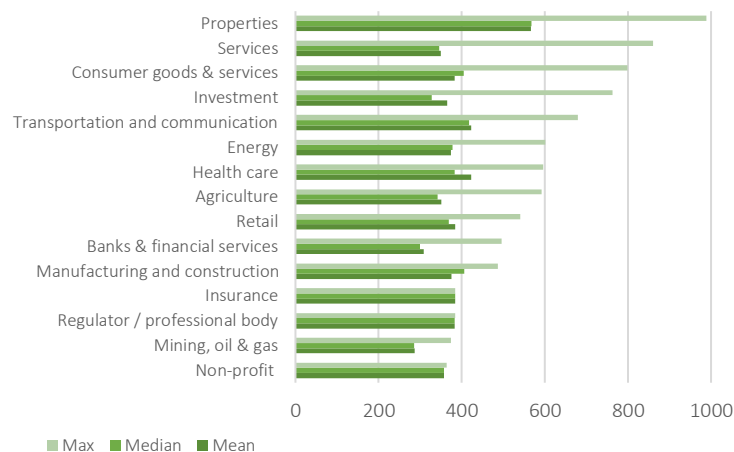


Table 5: Average KAM length by KAM type

KAM Type	Median KAM word count
Valuation of PPE	472
Valuation of goodwill and intangibles	413
Provision	388
Asset impairments (not goodwill)	387
Lease related	380
Other	364
Business combination	341
Insurance related	321
Going concern	311
Financial instruments	309
Inventory	302
Taxation	290
Revenue recognition	274
Biological assets	250
IT related	234

⁵ The Flesch reading ease formula is available here: <https://readabilityformulas.com/flesch-reading-ease-readability-formula.php>

⁶ Flesch, R. (1948). A new readability yardstick. *Journal of applied psychology*, 32(3), 221.

addition, around half of the audit reports had KAMs that are 'extremely difficult to

read' (a score of 10 or lower), which are best understood by professionals or readers with advanced university degrees.

Table 6b shows the KAMs' reading ease scores by entity type.

The readability scores were below 30 for almost all entities, regardless of whether they were listed or non-listed.

Non-listed banks, insurance, and other financial services providers had a high proportion of audit reports with KAMs that are best understood by professional-level readers.

Overall, the results suggest that the narratives of KAMs contained many long sentences and/or complex words, which made the KAMs very difficult to read in over 90% of the audit reports we analysed. This indicates that KAM communications may not be easily understandable by all users of the audit report.

The prevalence of low readability in the KAMs disclosed in our sample of NZ entities is similar to the finding reported in Velte (2018), who examined a sample of UK-listed entities.⁷

We note that the Flesch reading-ease score has its own limitations (e.g., different use of punctuation will affect how sentence lengths are determined) so these findings should be interpreted with this in mind.

Specificity

To understand the extent to which KAM communications were generic in nature (which can be applied to any similar auditee) or entity-specific, we looked at the number of times a specific entity was referred to in the KAM section of the audit report, where a specific entity can be a person, an organisation, a location, a monetary value, a date, a time, or a percent.⁸

Following the method discussed in Hope and Lu (2016)⁹, we used Stanford's Named Entity Recognition (NER) algorithm to detect the extent of discussing specific entities in auditors' KAM communications.¹⁰

We computed the overall specificity score as the total count of specific entities in the KAM section of the audit report (including KAM heading, description as well as auditor's response) divided by the total number of KAMs disclosed, for each audit report. We also assessed the specificity of the narratives on KAM description and KAM response separately. Figure 5 plots the median specificity scores by entity type.

Table 6a: KAM reading ease by year

	10 or lower %	30 or lower %
2020	52.34	98.72
2021	56.17	98.3

Table 6b: KAM reading ease by entity type

	10 or lower %	30 or lower %
Banks	92.3	100
Insurance	79.07	100
Derivative issuers	75	100
Non-bank deposit takers	65.63	93.75
Other (incl. co-operatives)	56.67	96.67
Property schemes	50	100
Listed entities	41.73	98.43
Debt securities	40	100
Forestry schemes	30	100

⁷ Velte, P. (2018). Does gender diversity in the audit committee influence key audit matters' readability in the audit report? UK evidence. *Corporate social responsibility and environmental management*, 25(5), 748-755.

⁸ This measure of content specificity has also been interpreted as a measure of 'boilerplate', because a higher precision in the language suggests a less generic disclosure.

⁹ Hope, O. K., Hu, D., & Lu, H. (2016). The benefits of specific risk-factor disclosures. *Review of Accounting Studies*, 21(4), 1005-1045.

¹⁰ We inspected the outputs generated by this algorithm and excluded entities that were incorrectly detected (e.g., accounting acronyms such as VIU or CGU were incorrectly detected as organisation names). We also excluded the count of phrases including the word 'Group' from this specificity count because auditors frequently used 'the Group' to refer to the auditee in KAM communications.

Among the non-listed entities, banks, non-bank financial institutions, and property schemes had more specific KAMs than the other entity types. Compared to the other entity types, non-listed banks also had the highest specificity in their KAM response narratives.

Listed entities had a median overall specificity score of five, suggesting that, on average, each KAM made five references to a specific organisation, location, monetary value, date, percent, or person. For most entities, KAM description contained more entity-specific information than the KAM response section of the disclosure.

Of the 435 audit reports that had at least one KAM disclosed, 98% had KAMs that included at least one specific entity(s) in the categories tagged by the NER algorithm. We inspected the KAMs of the eight audit reports that had no specific entities identified and concluded that these KAMs were nevertheless specific to the circumstances of the auditee.

In terms of KAM types, KAMs related to the valuation of PPE, financial instruments, business combinations, valuation of goodwill and intangibles, provisions, and other asset impairments contained more specific information relative to IT related and revenue recognition KAMs. The extent of specificity is also positively linked to KAM length.

Referring to note(s) of the financial statements

We looked at the extent to which KAMs cross referenced to section(s) of the financial reports. A high proportion of KAMs included a reference to specific note(s) of the financial statements. Specifically, of the KAMs reported in 2021, 80% made a reference to a 'note', and 69% mentioned the phrases 'financial statements' or 'financial reports.' KAMs reported in 2020 showed a similar pattern. With respect to entity type, around 85% of the KAMs for listed entities included a reference to a 'note', whereas the proportion of KAMs that cross-referenced section(s) of the financial reports for non-listed entities was slightly lower.

The extent of cross-referencing between KAMs and financial statement disclosures also varied by KAM types, as shown in Table 7, KAMs related to the measurement and recognition of financial statement items (e.g., goodwill, intangible assets, PPE, inventory, provision, revenue etc.) typically referred to specific sections of the financial reports. In contrast, KAMs related to the operating environment (e.g., IT related KAMs) less often cross-referenced to the entity's financial disclosures.

Figure 5: Average specificity scores by entity type

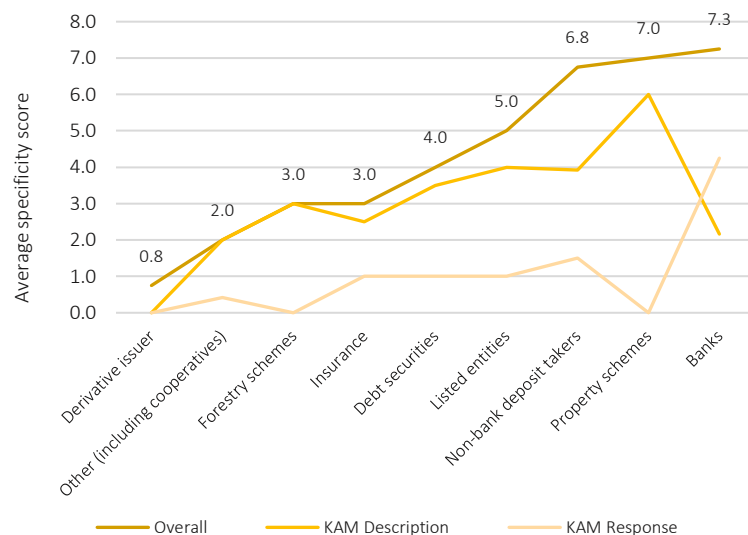


Table 7: Cross referencing between KAMs and financial statements

	% of KAMs mention 'financial statements' or 'financial reports'	
	% of KAMs mention 'note'	% of KAMs mention 'financial statements' or 'financial reports'
2020	80	70
2021	80	69
Listed	85	71
Non-listed	72	67
	% of KAMs mention 'financial statements' or 'financial reports'	
	% of KAMs mention 'note'	% of KAMs mention 'financial statements' or 'financial reports'
Valuation of goodwill and intangibles	89	79
Valuation of PPE	92	78
Revenue recognition	77	57
Financial instruments	78	63
Provision	70	65
Inventory	86	72
Asset impairments (not goodwill)	81	63
Other	78	82
Taxation	75	60
Biological assets	76	44
Going concern	100	100
Insurance related	85	76
IT related	21	27
Lease related	88	88
Business combination	80	70

VOLUNTARY REPORTING

Similar to the findings reported in prior reviews, our analysis identified that some auditors have gone beyond what is required by the current auditing standards in NZ and provided additional information in areas of materiality, audit scope, and outcome of audit procedures.

Materiality

Overall, 49% of the sampled audit reports in 2021 included a materiality disclosure. The reporting of audit materiality varied by entity types as shown in Table 8. Auditors disclosed materiality for 60% of the listed entities; among non-listed segments, auditors reported on materiality more often for entities in the financial services and insurance sectors.

PwC remained the only audit firm that consistently reported on materiality for both listed and non-listed entities – all but one audit reports of PwC reported on materiality (98%) in 2021. KPMG and Deloitte reported on materiality for over 80% of their listed clients, but had a less consistent approach in their materiality reporting for non-listed clients. Overall, they disclosed materiality in around 63% of the audit reports, including listed and non-listed entities, in 2021, which is slightly lower compared to 2019. EY reported on materiality for only one NZX listed entity in our sample. This one audit report was issued by EY Edinburgh and the entity is cross-listed in the UK. EY NZ and other smaller audit firms did not report on materiality. Overall, the reporting of audit materiality has stayed relatively stable for most audit firms, but we saw a slight decline overall in 2021 compared to 2019.

Most auditors that reported on materiality included a monetary value; PwC and KPMG also reported on the materiality benchmark used and the rationale on the chosen benchmark.

Benchmarks

The most common materiality benchmark disclosed in 2021 was profit before tax (PBT) and its many variations, including adjusted PBT, EBITDA, EBITDAF, and weighted average adjusted PBT. Interestingly, a weighted average approach in determining audit materiality was used in 2020 and 2021 by PwC (and this benchmark was not observed in prior periods' reviews). The weighted approach aims to reduce the significant temporary impact of Covid on the key performance metrics. PwC applied a three-year weighted average adjusted PBT for a number of listed entities and non-listed banking and insurance providers in 2020 and 2021, as this measure was considered more stable and representative of the entity's long-term performance. The other commonly reported materiality benchmarks were revenue, net assets and total assets. These observations were comparable to those discussed in the prior XRB/FMA reviews.

The top three materiality benchmarks reported for listed entities in 2021 were (a form of) PBT, revenue, and net assets; for non-listed banks, PBT and net assets; for insurance providers, premium revenue, PBT, and net assets; for non-banking financial institutions, the benchmarks were mostly net assets. In rare cases, the benchmark used was very specific to the business environment of the entity, e.g., the cost of NZ source milk was used as the materiality benchmark for Fonterra.

Table 8: Materiality reporting by entity type in 2021

	% Reported materiality
<i>Listed entities</i>	60
<i>Banks</i>	62
<i>Insurance</i>	40
<i>Non-bank deposit takers</i>	31
<i>Debt securities</i>	30
<i>Others (incl. co-operatives)</i>	27
<i>Derivative issuers</i>	25
<i>Forestry schemes</i>	0
<i>Property schemes</i>	0

Of the materiality disclosures:

	PwC	KPMG	Deloitte
<i>% Reported on</i>			
<i>Materiality value</i>	98	100	95
<i>Materiality benchmark</i>	98	97	5
<i>Materiality percentage</i>	98	3	5
<i>Rationale on chosen benchmark</i>	98	90	5

Audit scope

Overall, auditors disclosed on audit scope in 29% of the audit reports sampled in 2021, which is a level similar to the reporting of audit scope by auditors in 2019. PwC included a discussion on audit scope in all but one audit reports in 2021. KPMG included a separate disclosure on audit scope in 13% of their audit reports. EY, Deloitte and other audit firms did not report on audit scope.

We note that auditors' disclosure on audit scope varied in length based on the complexity of the entity audited. For example, the disclosure on audit scope for Fonterra was close to 500 words (8 paragraphs), while other disclosures on audit scope were mostly between one to three paragraphs in length.

PwC and KPMG each had a standardised paragraph in all their audit scope disclosures:

"The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the financial reporting systems, processes and controls, and the industry in which it operates." (KPMG)

"We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates." (PwC)

We noticed that in a few PwC audit reports, there was no entity-specific disclosure on audit scope (only the standardised disclosure above was included). Overall, the level of entity-specific detail provided in the audit scope disclosures varied as this is not a regulated area.

Outcome of audit procedures in KAMs

In 2021, 22% of the KAMs included a disclosure on the outcome of audit procedures within individual KAMs.

In 98% of the KAMs that disclosed an outcome of audit procedures, auditors noted that they "had no matters to report from the procedures performed", found "no exceptions" or "material errors", or that they were 'satisfied' with the assumptions/judgements/valuations of the management, or found them "reasonable/supportable/appropriate/balanced." In 2% of the outcomes disclosed, the auditor's report noted correcting journal entries or additional disclosures were provided as a result of their audit procedures.

Table 9: Outcome of audit procedures	%
No matters to report	50
No material issues/exceptions	19
Judgements/assumptions/valuations adopted by the group were reasonable/supportable/appropriate	17
Satisfied with the conclusions of the management	12
Corrected figures in the financial statements or added additional disclosure	2

PwC and KPMG more frequently reported on outcomes of audit procedures in their KAMs than EY, Deloitte and other audit firms in 2021. Overall, the Big 4 audit firms, and the other audit firms discussed outcomes of audit procedures in 26%, and 13% of their KAMs in 2021, respectively.

NON-STANDARD REPORTS

Ninety-nine percent of the auditor reports within the sample included a “clean” opinion, i.e., that the financial statements present fairly, in all material respects, the financial position, financial performance and cash flows for the year.

Modified Opinions

There were seven qualifications in our sample where auditors were unable to obtain sufficient appropriate audit evidence to support certain reported carrying values in the financial statements. The seven qualifications were for five listed entities (two entities received qualified opinions in both years). One of the five entities was delisted from the NZX main board and ceased trading in 2022. Along with the qualified opinion, the auditor expressed a material uncertainty related to going concern (MURGC) in two audit reports, and an emphasis of matter (EOM) in one audit report.

There were two cases of disclaimer, one in 2020 and one in 2021, for two listed entities. In these cases, auditors have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements and thus did not express an opinion on the financial statements. A disclaimer is only used when the auditor has exhausted all avenues to get the evidence needed to form an opinion. Auditors provided extensive explanations on the basis for disclaimer.

It is relatively unusual for auditors to modify their opinion.

The frequencies of MURGC, qualified, and disclaimer audit opinions in 2020/2021 were comparable to those reported in the 2019 review.

Table 10: Frequencies of non-standard audit reports

	MURGC	EOM	Qualification	Disclaimer
2020	15	16	3	1
2021	10	10	4	1
Total	25	26	7	2

Emphasis of Matter (EOM)

Auditors have other tools to enhance the communicative value of their report. An emphasis of matter paragraph refers to a matter appropriately presented or disclosure in the financial statements that, in the auditor’s judgement, is of such importance that it is fundamental to users’ understanding of the financial statements.

Relative to prior years’ reviews, we observed a higher number of audit reports with EOM paragraphs being disclosed during the period from 2020 to 2021. Specifically, 2 cases of EOM were identified in 2019, as compared to 16 cases in 2020 and 10 cases in 2021.

We noticed EOMs arising from Covid being reported, which to some extent explained the higher number of audit reports with EOMs during this period compared to prior periods. Of the 26 audit reports with EOM reported, 50% were in the insurance, banking, or non-bank financial services sector.

Table 11 provides a breakdown of the occurrence of EOMs by entity type. Only 3% of the listed entities received audit reports containing EOMs. Non-listed entities, especially banks, non-bank financial institutions, forestry schemes and property schemes had a higher proportion of audit reports with EOMs.

We note that the use of EOMs in New Zealand is more common than in other countries such as the UK.

Table 11: EOMs by entity type

	Frequency	%
<i>Banks</i>	4	15
<i>Debt securities</i>	0	0
<i>Derivative issuers</i>	1	13
<i>Forestry schemes</i>	4	40
<i>Insurance</i>	4	5
<i>Listed entities</i>	8	3
<i>Non-bank deposit takers</i>	4	13
<i>Others (incl. co-operatives)</i>	0	0
<i>Property schemes</i>	1	25

SPECIAL TOPICS

Covid-related KAMs

To evaluate the extent of the impact of Covid-19 on auditors' reporting of KAMs, we searched for Covid-related discussions in the KAM section of the audit reports. Table 12a shows the proportion of audit reports that mentioned the impact of Covid in the KAM disclosures.

In 2020, 60% of the audit reports in our sample mentioned 'Covid' in the reporting of KAM(s). The proportion of audit reports that mentioned the impact of Covid in the KAM section was lower in 2021 (39%).

Looking at the proportion of audit reports with Covid-related KAM(s) by entity type, all property schemes had a KAM that referred to the impact of Covid. Over 50% of the audit reports for banks, non-bank financial institutions, and listed entities had Covid-related discussions in the KAM communications.

In terms of industry breakdown within listed entities, over 70% of the audit reports in insurance, retail, health care, and properties sectors mentioned the impact of Covid in the KAM disclosures. Most other industries also had KAMs that referred to the Covid pandemic.

The above findings were based on Covid-related discussion in the entire narrative of the KAM section (including KAM heading, description, and response). We also found 44 cases where the impact of Covid was disclosed in a more prominent place, namely in the heading of a KAM. Among the KAMs mentioning Covid in the heading, a high number related to the valuation and impairment of assets.

Table 12a: Covid-related KAM reporting

By year		% mention 'Covid'
	2020	60
	2021	39
By entity type		% mention 'Covid'
	Property schemes	100
	Banks	96
	Non-bank deposit takers	53
	Listed entities	52
	Debt securities	50
	Insurance	48
	Other (incl. co-operatives)	10
	Derivative issuer	0
	Forestry schemes	0
By industry		% mention 'Covid'
	Insurance	100
	Retail	90
	Health care	81
	Properties	77
	Transportation and communication	55
	Banks & financial services	50
	Consumer goods & services	50
	Non-profit	50
	Agriculture	46
	Energy	44
	Services	44
	Investment	39
	Mining, oil & gas	33
	Manufacturing and construction	21
	Regulator / professional body	0

We also looked at the frequency of Covid being mentioned in different types of KAMs, as shown in Table 12b.

KAMs related to the valuation of assets, including PPE, inventory, goodwill and intangibles discussed the impact of Covid more frequently compared to KAMs related to IT system, and taxation.

Table 12b: Covid-related KAM reporting by KAM type

	% mention 'Covid' in KAM heading	% mention 'Covid' in KAM description	% mention 'Covid' in KAM response
<i>Valuation of PPE</i>	14	56	53
<i>Valuation of goodwill and intangibles</i>	8	34	43
<i>Provision</i>	2	48	43
<i>Insurance related</i>	4	26	32
<i>Inventory</i>	14	31	31
<i>Financial instruments</i>	2	25	27
<i>Other</i>	16	35	27
<i>Going concern</i>	0	22	22
<i>Biological assets</i>	0	12	20
<i>Asset impairments (not goodwill)</i>	0	33	19
<i>Revenue recognition</i>	0	9	17
<i>Business combination</i>	0	15	15
<i>Lease related</i>	0	3	9
<i>Taxation</i>	0	0	5
<i>IT related</i>	0	0	3

Climate-related KAMs

We found only three cases where auditors referred to climate risk in the reporting of KAMs in the 470 audit reports analysed. The three cases were for three different listed entities¹¹, all in 2021. Of the three entities, two were in the energy sector and one in the agriculture sector.

In these instances, auditors noted the risk of climate change on the valuation or impairment of assets. However, the mention of climate risk in these KAMs was very brief and general (quotes provided below).

"The valuation also reflects assumptions relating to changes in demand in response to climate change."

"We considered the impairment assessment of the Gas Trading segments to be a key audit matter due to the competitive margin trading environment and the potential impact of the response on the global climate change."

"Holding discussions with management and considering market information to identify factors, including environmental/climate or market risks, that would impact the current crop valuation, including consideration of the impact of COVID-19."

Different from the findings in the UK,¹² we found no KAM that specifically discussed climate related issues in our sample of NZ-listed and non-listed entities.

Because we found three cases of KAMs with climate-related narratives in 2021 but none in 2020, it could suggest an increasing trend for auditors to consider and disclose the impact of climate-related risks on the audit of financial statements.

¹¹ The three entities were Genesis Energy, Scales Corporation Limited, and Vector.

¹² <https://www.frc.org.uk/getattachment/46404ede-df44-4c95-9384-95a4dc18ef21/Snapshot-4-Climate-change,-COVID-19,-alternative-performance-measures,-and-graduated-findings.pdf>

Going Concern

Material uncertainty related to going concern (MURGC) disclosures occurred more often than GC KAMs during the period 2020-2021, similar to the results of the 2019 XRB/FMA review.

	Where the auditor concludes that there IS a MURGC	Where the auditor concludes there IS NOT a MURGC, but the use of the going concern assumption is identified as a KAM
Reporting approach required by the standard	The MURGC is, by nature, a KAM but it is communicated in a separate section in the auditor's report.	Going concern can be a "close call". The auditor may have made significant effort to gain comfort that the use of the going concern assumption was appropriate and therefore identify going concern as a KAM
2019	14 examples	5 examples
2020	15 examples	5 examples
2021	10 examples	4 examples

Twenty-five audit reports (5% of the sample) contained a MURGC disclosure, fifteen in 2020, ten in 2021. Seventeen entities received audit reports containing a MURGC (eight entities received MURGC for two consecutive years), of which three were non-listed and 14 were listed. Among the 22 audit reports for listed entities with MURGC, 41% were in consumer goods & services, 27% in investment, and 23% in services industries.

Auditors' communication of MURGC showed a standard pattern: *"We draw attention to ... which indicates a material uncertainty that exists that may cast significant doubt on the entity's ability to continue as a going concern. Our opinion is not modified in this matter."*

Nine audit reports (2% of the sample) contained a GC KAM, five in 2020, four in 2021. The GC KAMs were for five listed entities (three in manufacturing and construction, one in investment, one in energy), and four non-listed entities (two non-bank deposit takers, and two others). The frequencies of MURGC and GC KAMs were comparable to those identified in the 2019 XRB/FMA review.

In terms of the narratives, GC KAMs contained more detailed descriptions about the matter, while the MURGC paragraph was more standardised and streamlined in its description. Most auditors reported KAMs using a tabular format, whereas MURGCs were communicated in one to two paragraphs in most audit reports.

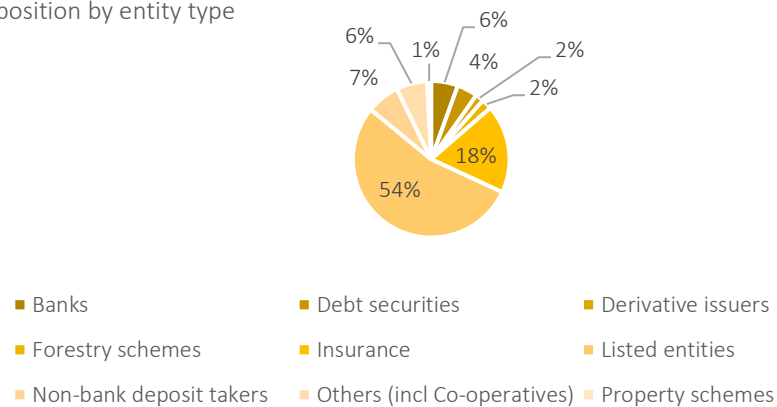
In one audit report, auditor used a KAM format in reporting a MURGC. The KAMs of this audit report were disclosed in a separate section. GC KAM and MURGC did not exist concurrently in any of the audit reports in our sample.

Appendix A: Sample Overview

Table A: Sample composition by entity type

	Listed entities	Banks	Non-bank deposit takers	Insurance	Debt securities	Derivative issuers	Others (incl. co-operatives)	Property schemes	Forestry schemes	Total
2020	127	13	16	43	10	4	15	2	5	235
2021	127	13	16	43	10	4	15	2	5	235
<i>Total</i>	254	26	32	86	20	8	30	4	10	470

Figure A: Sample composition by entity type



Similar to the joint research undertaken by the XRB and the FMA in 2019, we collected the audit reports of nine types of entities that are required to follow the auditing standards on KAM reporting. Our sample included 470 audit reports for 235 unique entities, covering two consecutive years from 2020 to 2021 for each entity. The sample was most represented by listed entities (54%), followed by non-listed insurance (18%), banking (6%) and non-banking financial institutions (7%). Issuers of derivatives (2%) and debt securities (4%), forestry (2%) and property schemes (1%), and others (6%) made up a small portion of the sample.

Within the sample of audit reports we analysed, 26% were issued by PwC, 20% by KPMG, 15% by Deloitte, and 11% by EY. In total, the 'Big Four' audit firms audited 72% of the sample, and the rest 28% of the sample were audited by other small-to-medium sized auditors.



5 September 2016

External Reporting Board Policy for dealing with audit reports received under the Companies Act 1993 and the Financial Markets Conduct Act 2013

Purpose of the Policy

1. The Companies Act 1993 and the Financial Markets Conduct Act 2013 both require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the External Reporting Board (XRB), and other specified parties, if the financial reporting requirements of the respective Acts have not been complied with. However, the two Acts are silent on the purpose of the provisions and on the actions, if any, that the XRB (and the other specified parties) must take when it receives the audit reports.
2. This Policy sets out the processes that the Board of the XRB and its sub-Boards, the New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing and Assurance Board (NZAuASB), will follow when audit reports are sent to the XRB by auditors in accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013. The Policy also applies when audit reports are referred to the XRB by any other party.

Policy¹

3. Audit reports received by the XRB will be reviewed by both the NZASB and the NZAuASB.
4. The NZASB's review will be focused on modified audit opinions in relation to material misstatements in the financial statements.
5. The NZAuASB's review will be focused on modified audit opinions in relation to when the auditor has been unable to obtain sufficient audit evidence.
6. Where the reviews raise issues or trends that relate to XRB strategy, these will be referred to the XRB Board for consideration.
7. Reviews by the NZASB and the NZAuASB will consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any issue about the appropriateness, applicability, clarity and/or completeness of the relevant standards.
8. No action needs to be taken by the XRB, the NZASB or the NZAuASB if the modification of the audit opinion results from non-compliance by an entity of an otherwise appropriate standard (that is, a standard that is applicable, clear, complete and has

¹ The Background and Basis for the Policy is set out in Appendix 1.

appropriate accompanying guidance). Such non-compliance is a matter for the appropriate regulator to deal with.

9. Where the modification of the audit opinion has implications for standards, the NZASB and the NZAuASB will consider their respective standards' convergence and/or harmonisation policies. Matters raised may need to be addressed through, or in cooperation, relevant international standards Boards rather than unilaterally, or, where appropriate, through the provision of additional New Zealand guidance.
10. The actions that may be taken by the NZASB and/or the NZAuASB where the modified audit opinions have implications for any XRB standards include, for example:
 - a. amend a domestic standard;
 - b. raise an issue with the relevant international standards board;
 - c. issue guidance; and/or
 - d. re-examine the initial cost-benefit analysis undertaken when the relevant standard was developed.
11. Reviews by the XRB Board (when necessary) will consider the implications for the XRB strategy to ensure that the multi-standards, multi-tier system remains appropriate. The actions that the XRB Board may take where the modified audit opinions have implications for XRB strategy and/or the standards frameworks include, for example:
 - a. Review the XRB strategy and/or standards frameworks;
 - b. Refer a matter an appropriate party for their further action (for example, the regulators and/or policy makers);
 - c. Refer a matter to the appropriate professional body after consultation with the regulators (for example in the rare and unusual circumstances where an audit qualification was considered to be incorrect);
 - d. Engage with or liaise with policy makers and/or regulators;
 - e. Engage with relevant organisations or industries directly and after consultation with the regulators, to determine the cause of the non-compliance, before taking any further action (for example, where the modified audit opinions indicate a trend of persistent non-compliance by a particular industry or with a particular standard); and/or
 - f. Engage with auditors on their duties under the Companies Act 1993 and the Financial Markets Conduct Act 2013 to send audit reports with modified audit opinions to the XRB.
12. In each instance before the XRB Board takes any action, it would, where necessary, liaise with the regulators and/or policy makers.

Review of this Policy

13. This Policy will be reviewed every three years to ensure that it is still appropriate.

Appendix 1: Background and Basis for the Policy

Legislative provisions

1. The Companies Act 1993 and the Financial Markets Conduct Act 2013 both require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the XRB (and other specified parties) if the financial reporting requirements of the respective Acts have not been complied with. However, the two Acts are silent on the purpose of the provisions and on the actions, if any, that the XRB (and the other specified parties) must take when it receives the audit reports.

Companies Act 1993

2. Part 11 of the Companies Act 1993 specifies, among other matters, the requirements for a company's financial reporting and audit of its financial statements. It specifies the companies that must prepare financial statements, and that those financial statements must comply with generally accepted accounting practice (GAAP)². Part 11 also specifies whose financial statements must be subject to audit and that the audit must be carried out in accordance with applicable auditing and assurance standards³. GAAP, applicable financial reporting standards and applicable auditing and assurance standards are defined in the Companies Act 1993 by reference to the Financial Reporting Act 2013. GAAP, applicable financial reporting standards and applicable auditing and assurance standards in the Financial Reporting Act 2013 refer to standards issued by the XRB⁴.
3. Within Part 11, section 207C of the Companies Act 1993 provides that the auditor's report of a company must be sent to the Registrar of Companies and the XRB if the requirements of the Companies Act 1993 have not been complied with:

"If the auditor's report indicates that the requirements of this Act have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report and a copy of the financial statements or group financial statements to which it relates to the Registrar and the External Reporting Board".

4. In the context of the requirements of Part 11 of the Companies Act 1993 about audits of a company's financial statements, the reference to non-compliance with "*the requirements of this Act*" in section 207C is read to mean non-compliance with applicable financial reporting standards and applicable auditing and assurance standards.

Financial Markets Conduct Act 2013

5. Part 7 of the Financial Markets Conduct Act 2013 sets out the financial reporting requirements of an "FMC reporting entity"⁵, including the requirements for the

² Sections 200 – 202 of the Companies Act 1993.

³ Sections 206 – 207A of the Companies Act 1993.

⁴ Section 5 of the Financial Reporting Act 2013.

⁵ The meaning of an "FMC reporting entity" is set out in section 451 of the Financial Markets Conduct Act 2013.

preparation⁶ and audit of the financial statements⁷. Financial statements of an FMC reporting entity must comply with GAAP⁸ and the audit of those financial statements must comply with applicable auditing and assurance standards⁹.

6. Similar to the Companies Act 1993, GAAP, applicable financial reporting standards and applicable auditing and assurance standards are defined in the Act by reference to the Financial Reporting Act 2013 (and hence refer to standards issued by the XRB).
7. Within Subpart 3 *Preparation, audit, and lodgement of financial statements* of Part 7 *Financial reporting* of the Financial Markets Conduct Act 2013, section 461G on the auditor's report states:
 - (1) *The auditor's report on the financial statements or group financial statements that are required to be audited under this subpart must comply with the requirements of all applicable auditing and assurance standards.*
 - (2) *If the auditor's report indicates that the requirements of this Part have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report, and a copy of the financial statements or group financial statements to which it relates, to—*
 - (a) *the FMA; and*
 - (b) *the External Reporting Board; and*
 - (c) *in the case of an issuer of debt securities or a manager of a registered scheme, the supervisor.*
8. In the context of the requirements of Subpart 3 of Part 7 of the Financial Markets Conduct Act 2013 about financial statements and audit of an FMC reporting entity's financial statements, the reference to non-compliance with "*the requirements of this Part*" in section 461G is read to mean non-compliance with the applicable financial reporting standards and applicable auditing and assurance standards.

Functions of the XRB

9. The functions of the XRB are set out in the Financial Reporting Act 2013. Section 12 of the Financial Reporting Act 2013 provides:

"The Board has the following functions:

- (a) *to prepare and, if it thinks fit, issue financial reporting standards for the purposes of any enactment that requires—*
 - (i) *financial statements or group financial statements to comply, or be prepared in accordance, with generally accepted accounting practice or non-GAAP standards;*
or
 - (ii) *a statement, report, or other information to comply, or be prepared in accordance, with financial reporting standards:*
- (b) *to prepare and, if it thinks fit, issue auditing and assurance standards for—*

⁶ Sections 460 – 461 of the Financial Markets Conduct Act 2013.

⁷ Section 461D of the Financial Markets Conduct Act 2013.

⁸ Sections 460 – 461 of the Financial Markets Conduct Act 2013.

⁹ Sections 461F – 461G of the Financial Markets Conduct Act 2013.

- (i) *the purposes of the Auditor Regulation Act 2011 or any other enactment that requires a person to comply with those standards; or*
- (ii) *the purposes of any rules or codes of ethics of an association of accountants where those rules or codes require the association's members to comply with those standards; or*
- (iii) *any other purpose approved by the Minister by notice in writing to the Board:*
- (c) *to prepare and, if it thinks fit, issue authoritative notices for the purposes of the definition of generally accepted accounting practice:*
- (d) *to develop and implement strategies for the issue of standards in order to provide a framework for the Board's overall direction in the setting of standards (including implementing a strategy for tiers of financial reporting in accordance with sections 29 to 33):*
- (e) *to liaise with international or national organisations that perform functions that correspond with, or are similar to, those conferred on the Board:*
- (f) *to perform and exercise the functions, duties, and powers conferred or imposed on it by or under this Act and any other enactments."*

Interpretation of the legislative intent of the provisions of the Companies Act and the Financial Markets Conduct Act for the XRB

10. In determining the intent of legislation in providing for the XRB to receive the audit reports under section 207C of the Companies Act 1993 and Section 461G of the Financial Markets Conduct Act 2013, regard needs to be had to the functions (and role) of the XRB under the Financial Reporting Act 2013.
11. Under the Financial Reporting Act 2013, the key function of the XRB is the setting of accounting and auditing & assurance standards, and the development and implementation of a strategy for an accounting standards framework (XRB strategy). The standard-setting and strategic functions of the XRB are in contrast to the functions of the other specified parties. Those parties have, among other functions, regulatory powers to take enforcement action (where necessary). The functions of the XRB do not extend to the ability to take enforcement action against an entity's non-compliance with the respective Acts. Therefore, unlike the other specified parties, the XRB does not have a legislative responsibility to take any direct regulatory action or make contact with the preparers or auditors of the financial statements about any aspect of the non-compliance.
12. Any action the XRB takes in relation to receiving the audit reports should be consistent with the XRB's role and functions: the actions taken should be for the primary objective of assessing, based on the nature of the non-compliance, whether the non-compliance set out in the audit reports indicates a need to clarify and/or modify accounting standards, auditing & assurance standards and/or the XRB strategy.

What type of audit opinions are we concerned with?

13. Audit reports may contain unmodified audit opinions (unqualified opinions) or modified audit opinions (qualified opinions, adverse opinions or disclaimers of opinion).

14. In the context of the requirements of section 207C of the Companies Act 1993 and section 461G of the Financial Markets Conduct Act 2013, audit reports that are sent to the XRB would be all audit reports that contain modified audit opinions. These would be audit reports that contain audit opinions that indicate non-compliance with the financial reporting and/or audit requirements of the Companies Act 1993 or the Financial Markets Conduct Act 2013.
15. Accounting standards require financial statements to present fairly the financial position, financial performance and cash flows of an entity. There is a presumption in accounting standards that application of applicable financial reporting standards, with additional disclosures when necessary, results in financial statements that achieve such a fair presentation¹⁰. In auditing standards¹¹, the recognition of this presumption requires the financial reporting framework that is used to be a “fair presentation framework”. Auditing standards acknowledge that in complying with a fair presentation framework, additional disclosures may sometimes be necessary and, in extremely rare circumstances, departures may also be necessary.
16. Auditing standards¹² set out the types of modified audit opinions and the circumstances when a modification of an audit opinion is required. An auditor is required to modify the opinion in the auditor’s report when:
 - a. The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - b. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
17. A material misstatement of the financial statements, based on the audit evidence obtained, may arise in relation to:
 - a. The appropriateness of the selected accounting policies;
 - b. The application of the selected accounting policies; or
 - c. The appropriateness or adequacy of disclosures in the financial statements.
18. A material misstatement of the financial statements, based on auditor’s inability to obtain sufficient appropriate audit evidence (also referred to as “a limitation on the scope of the audit”), may arise in relation to:
 - a. Circumstances beyond the control of the entity;
 - b. Circumstances relating to the nature or timing of the auditor’s work; or
 - c. Limitations imposed by management.
19. The XRB’s interest (and ability to take some action) is more likely to be in those modified audit opinions that indicate material misstatements in the financial statements that arise from audit evidence obtained by the auditor. As these modified

¹⁰ NZ IAS 1 *Presentation of financial statements* and PBE IPSAS 1 *Presentation of financial statements*.

¹¹ ISA(NZ) 700 *Forming an opinion and reporting on financial statements*.

¹² See ISA(NZ) 700 *Forming an opinion and reporting on financial statements*.

opinions focus on material misstatements in financial statements, the issues that arise are more likely to be related to accounting standards (than to auditing & assurance standards or the XRB strategy).

20. The XRB interest (and ability to take action) is less likely in relation to the audit reports received that cover modified opinions that arise from “a limitation on the scope of an audit”. This is because these are often more likely to arise from “practical” issues and are often less likely to arise as a direct result of applying, or not applying, XRB standards or the XRB strategy. Therefore, the XRB is less likely to need to modify accounting standards, auditing & assurance standards or the XRB strategy or take other action (for example, issuing further guidance) in response to this type of modified audit report.
21. Nevertheless, limitations imposed by management may be related to, for example, the governing body considering that an accounting standard requirement is not practicable. Similarly, while auditors not complying with auditing & assurance standards falls, prima facie, within the role of the regulator to take action (rather than within the role of the XRB), such non-compliance may indicate that further guidance is required.
22. As such, for the purpose of this policy, all modified audit opinions will be reviewed to determine if any XRB action is required.

What entities and standards are involved?

23. The Companies Act 1993 covers all companies incorporated under that Act. These may be for-profit companies or public benefit entities (PBEs).
24. The Financial Markets Conduct Act 2013 covers FMC reporting entities. These may be entities under any organisational structure (companies, credit unions, building society etc).
25. Entities under both Acts may be in:
 - a. For-profit Tier 1 and Tier 2¹³; or
 - b. PBE Tier 1, Tier 2 or Tier 3¹⁴.
26. Therefore, the modified audit opinions could potentially affect all the accounting standards (except the Tier 4 standards) and all auditing & assurance standards issued by the XRB.

¹³ A Tier 2 for-profit entity that is not an FMC reporting entity may opt out of the audit requirements.

¹⁴ A Tier 4 PBE is not required to have an audit. A Tier 3 PBE with expenses of less than \$1 million is also not required to have an audit.