



Trust and Confidence

Views from Audit Committee Chairs

Research Report

2023

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Foreword

The External Reporting Board commissioned research into Audit Committee Chairs perceptions of quality and performance of audits to inform discussions on the role of audit in maintaining trust and confidence in financial reporting in New Zealand, and to examine how the standards we issue, contribute to enhancing trust and confidence in New Zealand.

Maintaining high levels of trust and confidence in reported information is fundamental for the efficient running of the New Zealand economy. Each stakeholder in the financial reporting supply chain plays an important role in supporting high quality information. The role that Audit Committees play in the oversight of financial reporting cannot be understated, nor can the role of auditors.

The research found that trust and confidence in reported information in New Zealand is high and that auditing standards are a key contributing factor to this. Alignment with international and Australian accounting and auditing standards is seen as important – confirming that our convergence and harmonisation policy is serving listed entities in New Zealand well.

The research highlights the importance of the relationship and interaction between the audit committee and the auditor. Audit Committee Chairs who participated in this research also noted the use and impact of Key Audit Matters (KAMs) as a key driver of quality interactions between both parties.

The research also revealed concerns with the audit market overall. This centred primarily on the concentration of audit firms conducting audits of listed entities which are predominantly covered by the Big 4 audit firms. Talent attraction and retention in the audit profession were also flagged as issues facing the audit industry, with a shortage of auditors being particularly noted by those who required audit services in regional New Zealand.

Sustainability assurance was also top of mind among Audit Committee Chairs and there was broad appreciation for New Zealand leading the way with climate-related disclosures but highlighted that challenges remain with a lack of in-house expertise in this relatively new reporting area.

In issuing NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures, we are committed to working with a broad range of assurance practitioners for entry into this assurance market. As we look towards the future, we anticipate that Assurance practitioners will have a critical role to play in enhancing trust and confidence.

The External Reporting Board expresses our gratitude to all the Audit Committee Chairs who participated in this research project and thank Professors Bradbury and Simnett for undertaking the research. We look forward to exploring the recommended actions.

Ngā mihi

April Mackenzie

Key findings



Trust and confidence is high

New Zealand audit committee chairs (AC-Chairs) generally perceive a high level of trust and confidence in reported information. Independent audits are the main source of trust and confidence.



International alignment

Alignment with international and Australian accounting and auditing standards is considered necessary for international funding, trade, and the transferability of talent.



Factors of good audit quality

The quality of the audit team and the relationship between the auditor and the audit committee are important factors of good audit quality. Nearly all audit committees assessed audit quality, but the formality of the assessment varied.



Technology improves quality

The most common suggestion to improve audit quality was the use of improved data analytics and technology on the audit, which leads to enhanced discussion with the audit committee.



FMA inspections are important

Consensus that the FMA's audit quality inspections are important and beneficial in building trust and confidence.



Interactions improve audit quality

Interactions between governance, management and audit have potential to enhance trust and confidence to the next level. This came through more strongly in New Zealand than from similar research in Australia.



Concerns with audit market

Main concerns with audit market as a whole are: auditor concentration (by the Big 4 audit firms); and talent attraction and retention in the audit profession.



NZ leading the way

AC-Chairs appreciate New Zealand leading the way on climate reporting but see alignment with international (and Australian) climate-related disclosures and assurance requirements going forward as important.



KAMs enhance relationships

Reporting of Key Audit Matters (KAMs) enhances the relationship between audit committees and auditors.



Perceptions are similar to those in Australia

While the context and timing differed, the key research findings were similar to research undertaken in Australia.

Recommended actions to explore

The authors recommend that the XRB continue to explore the ideas and opportunities, highlighted in this report, with others to assess their feasibility and desirability, to further promote trust and confidence.

Explore the benefits of joint publications on:

- Assessing audit quality
- Best practices involving audit committees to improve trust and confidence.

01

Enhance awareness of:

- The key findings from this research
- The XRB's policy of aligning with international auditing standards policy and harmonisation with Australian accounting and auditing standards.

02

Engage across the reporting supply chain to further enhance interactions:

- Explore views as to when New Zealand specific circumstances or benefit-costs might allow for departures from international standards.
- Consider an annual forum on current issues with AC-Chairs, the FMA, the XRB and IOD, and assurance practitioners.

03

Clarify and communicate

- Threats and safeguards for independence considerations for assurance over the climate-related disclosures.

04

Research Report

AUTHORS OF THIS RESEARCH REPORT

Professor Emeritus Michael Bradbury,
Massey University

Professor Roger Simnett, Deakin University
and UNSW Sydney

DISCLAIMER

The views expressed in this research report do not represent formal views of the External Reporting Board (XRB), which are established only through appropriate due process.

Obtaining a copy of this publication

This research report is available on the XRB website.

Suggested Citation

The XRB publishes research which promotes thought leadership in auditing and assurance standard-setting and policy making through in-depth analysis of audit and assurance issues and related empirical research.

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Enquiries

External Reporting Board
PO Box 11250
Manners Street
Wellington 6142
New Zealand

Email: enquiries@xrb.govt.nz
Website: www.xrb.govt.nz

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Summary of findings

In-depth interviews of Audit Committee Chairs (AC-Chairs) were undertaken to get their insights on audit quality. Interviews were held with 20 AC-Chairs that had varied backgrounds, with approximately half having prior employment with the professional accounting firms, and the others having varied backgrounds from industry, regulatory, legal and academia. Between them they chaired the audit committees of 32 different reporting entities. Audits for these 32 reporting entities were undertaken by mainly Big 4 audit firms, although many of the AC-Chairs did have experience with non-Big 4 firms on other audit committees they had previously or presently served on.

Areas covered included:

- what AC-Chairs consider to be good audit quality,
- do AC-Chairs have any concerns about audit quality,
- what factors are involved in determining choice of auditor,
- the AC-Chairs engagement with the auditor, and the process by which the audit committee assessed audit quality.

AC-Chairs overall views of audit quality and issues associated with assurance of climate-related information in the form of climate statements or greenhouse gas emissions disclosures were also explored.

Overall, we find that trust and confidence in reported information in New Zealand is perceived to be high. However, trust and confidence are always fragile, one scandal away from being bruised. Independent financial statement auditing is a major factor in enhancing trust and confidence in reported information. While alignment of New Zealand accounting and auditing standards with Australian and international standards was seen as a must by many of our AC-Chairs, it was seen by some as beneficial to allow for departures from alignment with international accounting and auditing standards if there are logical reasons to do so. Reasons for departure would include country-specific circumstances, or if the costs outweigh the benefits. This was especially true of international auditing standards, where changes to these standards are commonly given as a justification for a proposed audit fee increase.

What came through strongly in these interviews is that the audit committee is at the hub of various relationships which enhance trust and confidence in reported information. While models of trust and confidence ([e.g. IAASB 2021](#)) emphasise the importance of individual elements such as strong governance (including audit committees) and independent audit and assurance, what is not as well communicated and understood is that it is the interactions of these elements that have the potential to take the enhancement of trust and confidence to a further level.

The most obvious relationship is that the audit committee selects an audit firm, what is less emphasised is the proactivity of the audit committee in aspects of that selection decision. This proactivity was found to extend beyond selecting the appropriate audit firm (which takes into account several factors, including the brand of the audit firm, the resources they have to be able to complete a timely audit, sector expertise, specialist expertise, and innovative audit methodology) to identifying and influencing choice of the audit partner and the audit team, and extends to an understanding of the independent experts they use. The number one factor that AC-Chairs were found to consider is the expected benefits and insights that the audit partner and the audit team will bring to the attention of the audit committee as a method of enhancing trust and confidence in the reported information.

As such, the AC-Chair expects the audit partner to develop a relationship where the auditor is not afraid to raise important issues, with either the audit committee or with management. They expect the auditor to be a good communicator with the audit committee, such that there are “no surprises” and issues get cleared appropriately and on a timely basis. Key Audit Matters (KAMs) have been found to be useful because they provide alignment between the audit committee and the auditor over the key risk factors related to the audit and reporting quality. They also expect the audit partner and the audit team to have sector experience and to be able to discuss broader issues relating to that sector and items they are seeing elsewhere that might possibly impact or be beneficial to the entity. While AC-Chairs consider that there is generally a good balance between the roles of the audit committee and the auditor, a number believe that the benefits of the interactions associated with having a strong audit committee and a strong auditor may not be fully evident or appreciated.

There are also benefits arising from the interactions of the auditor, and the audit committee, with the management team. Through forthright and insightful observations and conversations between this trilogy of parties, this has the potential, and the effect, of raising the quality of reported financial information, and its resulting trust and confidence. The relationship between the audit team and the management team is a fine balance between developing a good working relationship and communication lines between the audit team and management and then reporting objectively to the audit committee on management’s judgements, their competency and capacity.

Finally, there must be good balance in the relationship between audit committee members and the rest of the Board. While the audit committee is the main link in the trilogy of parties to enhance trust and confidence, they must also have a good relationship with the other Board directors. This is not only because these Board members are expected to take ownership of any externally reported information coming from the reporting entity, but the AC-Chairs also expect these other Board members to bring their own specific knowledge, skills and insights to the outcomes of this trilogy in order to add further to the trust and confidence in reported information. As we commonly heard, there are always benefits from an additional set of “fresh eyes”.

Key issues identified

1. Factors enhancing trust and confidence in reported information in NZ

- AC-Chairs did not perceive any problems with the level of trust and confidence in reported information in New Zealand at the current time. The current tax scandal in Australia was raised by many AC-Chairs but none perceived it as affecting the level of trust and confidence in reported information in New Zealand, the auditing profession in New Zealand, or the audit work of that particular firm.
- The factors that AC-Chairs commonly referred to in their discussion on trust and confidence were elements of the reporting supply chain and the qualities of the reported information. The majority of AC-Chairs considered that independent audits were the main source of trust and confidence. Also important was reputation – the reputation of the auditor, the reputation of the reporting entity, and the reputation of those involved in governance.
- Nearly all AC-Chairs considered that alignment with international accounting standards was necessary for international funding (both debt and equity), exporting, and the transferability of talent. This links into trust and confidence through IFRS providing consistency and comparability.
- All AC-Chairs thought there was currently a good balance between the roles of the audit committee and the auditors. The relevant factor was that the role of each party was mutually respected and understood. In some cases, however, the answer was qualified because there was some doubt expressed as to whether others would see the roles as balanced.
- The discussions with AC-Chairs also touched on their experiences with Financial Markets Authority (FMA) audit firm inspections and the FMA's audit quality monitoring reports. Among AC-Chairs, there was acknowledgement that FMA inspections contribute towards enhanced trust and confidence.

2. Role of audit in enhancing trust and confidence

- A large majority of AC-Chairs agreed that the XRB's auditing standards were a most important factor contributing to trust and confidence in reported information. However, they also admitted they did not have a detailed knowledge of auditing standards, which were considered the domain of the auditor. The reporting of Key Audit Matters was a particular recent requirement added to auditing standards that was mentioned by over half of the AC-Chairs as enhancing the relationship between audit committees and auditors.
- AC-Chairs were generally positive about the XRB's policy of alignment with international auditing standards. The main reason for supporting the alignment was because of the global nature of New Zealand businesses. However, some AC-Chairs qualified their support for alignment with international auditing standards on the basis of the additional costs that it imposed. Aligning with enhanced international standards was commonly cited by audit firms as a justification for audit fee increases.
- Because of the level of cross-Tasman business, there was strong support for ensuring full alignment with Australian auditing standards.
- All AC-Chairs highly valued the audit. The majority of AC-Chairs stated that the value of audit lay in its core function of independent verification of the financial statements, with almost as many AC-Chairs describing the audit as being of value to the directors.
- The value of audit to the directors is aided through the auditor's assurance and insights on systems and controls. Audits were seen as providing an early signalling of emerging issues, identification of weaknesses, and recommendations for enhancements.
- The value of audit was further enhanced by auditors using their expertise to provide observations on the firm (e.g., the capacity and capability of management) and its environment as well as comfort to the audit committee over key management judgements.

3. Financial statement audit quality

- More than half the AC-Chairs considered good audit quality was related to the quality of the audit team (especially at partner level), and the relationship between the auditor and the audit committee. In this relationship the auditors are expected to challenge management appropriately. AC-Chairs also highlighted more technical aspects of audit such as sector or industry knowledge, the audit strategy and compliance with auditing standards.

- There are two main concerns that AC-Chairs have over the audit market as a whole: auditor concentration (by the Big 4 audit firms), and talent attraction and retention in the audit profession. Nearly all of the AC-Chairs interviewed used Big 4 audit firms, some had exposure to non-Big 4 firms through other roles. Audit concentration concerns were exacerbated by the lack of depth in some New Zealand industries, meaning that not all Big 4 had the relevant industry expertise, and Big 4 could not be auditors because of them providing excluded services. Whilst there was recognition that auditor concentration might lead to a lack of competition and a lowering of standards, most AC-Chairs did not seem to think this was the case.
- There were mixed views over the use of non-Big 4 auditing firms to ease the concentration problem. A few AC-Chairs considered that only the Big 4 audit firms would have the resources to be able to audit their particular entities, and that a move from a Big 4 audit firm to a non-Big 4 auditing firm would not be well received by shareholders.
- The talent attraction and retention issue in the audit market was especially felt in regional areas, resulting in audit firms closing a number of regional offices. This has in turn resulted in audits being staffed from central locations, quite removed from where business operations are located. With the importance of the relationship of the audit partner with the AC-Chair being a key theme on impacting audit quality, this potentially put this at risk, and meant that key personnel had to work that little bit harder in developing and maintaining that relationship. The extension of financial statement audit to assurance of climate-related and sustainability information was seen as possibly both adding to the talent shortage while also potentially helping to address it by attracting more people to the profession.
- In terms of improving the quality of financial statement auditing, the most common suggestion was the use of improved data analytics and technology on the audit. Other suggestions were having an independent panel assess auditor independence, and having a Sarbanes-Oxley type sign-off on controls.
- In terms of assessing audit quality, nearly all AC-Chairs stated that they undertook such assessments at the audit committee, and then held post-audit debrief sessions, one with the auditor and another with the management team. The assessment formality ranged from a general discussion to some indicating that questionnaires (of management team exposed to audit, and sometimes of auditors) were used. Most AC-Chairs pointed out that the assessment of audit quality is a continuous process throughout the audit. The alignment between the auditor's and the audit committee's assessment of risk, the concept of "no surprises", audit timeliness and the quality of conversations were the main components of this assessment.

4. Selecting the audit firm

- With regards to factors considered important in appointing an audit firm, just over one-third of AC-Chairs stated they had been through recent audit tenders. However, the answers from this group were similar to those of the remaining AC-Chairs. Three quarters of the AC-Chairs considered that the attributes of the potential audit partner (and the related team) was the major factor in audit firm choice. Both relevant industry expertise and the personal qualities were commonly referred to. Other factors commonly mentioned included the brand name and resources available (including geographical reach), technology and innovation, and price (or value for money) in the form of a reasonable fee.
- Before discussing auditor tenure disclosures, many AC-Chairs gave their opinions on audit partner and audit partner rotation. All but a few were comfortable with the stock exchange's requirement (NZX Listing Rule 2.13.3(f)) for a 5-year audit partner rotation. Several pointed out that the audit firms manage partner rotation well. While the arguments for audit firm rotation were understood, there were strong sentiments that the decision to change audit firm was a board decision and should not be mandatory. The disclosure of audit tenure was not broadly opposed, rather than being strongly supported. There was slightly more opposing the disclosure of audit firm tenure compared with the disclosure of audit partner tenure, and this appeared to be related to those arguing against the possible imposition of audit firm tenure. The AC-Chairs that thought disclosure was appropriate argued on the basis of improved transparency. Disclosure was opposed by some AC-Chairs on the grounds that it was unnecessary, redundant given that the information was available elsewhere, and because partner rotation was mandatory.
- If audit tenure disclosure was going to occur, the preferred location for this disclosure was in the governance section of the annual report. The audit report, notes to the accounts and the corporate directory all received some minor support, but views were not strong.

5. Engagement with the auditor outside the audit committee meetings

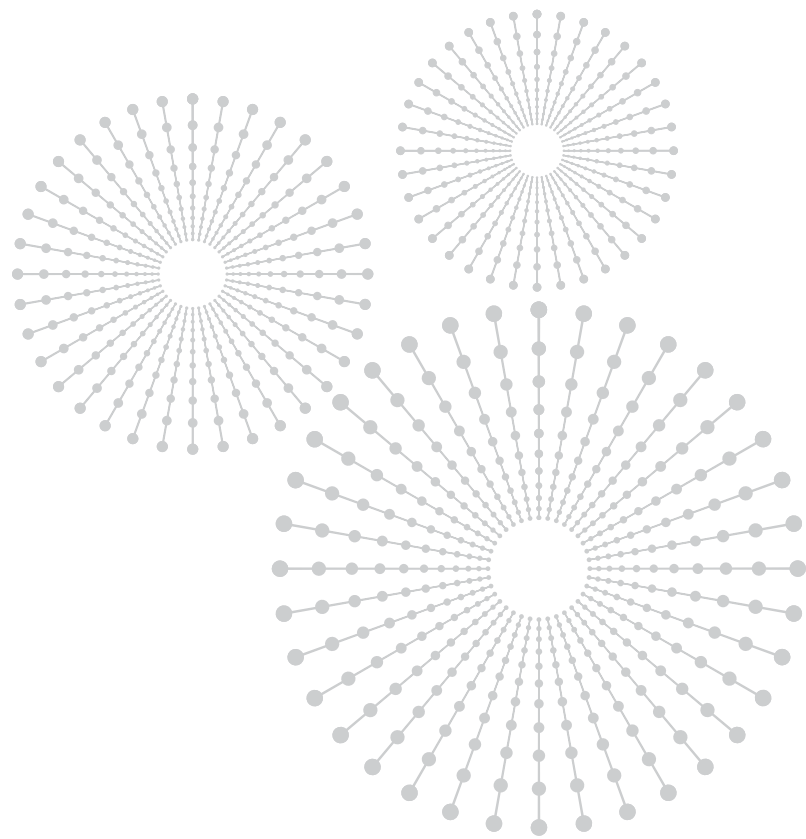
- Nearly all AC-Chairs mentioned the importance of pre-audit committee meetings between the chair and the auditor at the times when the auditor is presenting to the audit committee. This was primarily around the presentation of the audit plan, and the discussion of preliminary findings from the half-year and full-year audits.

- Other meetings with the auditor outside the pre-audit committee meetings were common, with their frequency varying considerably among the AC-Chairs, depending on the desire of the AC-Chair to maintain clear lines of communication, or specific issues arising related to the audit, such as changes in circumstances of the entity, or specific accounting or audit issues. The importance of maintaining independence while building these informal lines of communication were commonly emphasised.
- The two-way communication channel of these meetings was seen to be important to the efficiency of the audit, with either the AC-Chair or the auditor expected to initiate communication if necessary. The adage of “no surprises” was commonly raised.
- Several AC-Chairs noted two emerging trends: the auditor attending all audit committee meetings, and non-audit committee board members occasionally attending audit committee meetings.

6. Assurance over climate-related information

- There was a wide disparity in the views of AC-Chairs, mainly related to their levels of current preparedness of climate statements and greenhouse gas emissions. The disparities in current levels of reporting appeared to be related to the size, listing status, overseas operations and the industry-sensitive nature of the reporting entity. A minority are currently preparing and some of these are reporting climate statements, although none are currently publishing assurance reports on this information. Approximately half of the AC-Chairs were associated with reporting entities that were reporting, and in a number of cases assuring, Greenhouse Gas (GHG) emissions.
- Nearly all AC-Chairs had entities that were using, or expected to use, external consultants to prepare their climate statements. The main reason for using external consultants was the lack of in-house expertise. For those reporting entities that have internal audit, the expectation is that internal audit will be heavily involved in developing systems and processes, and potentially providing assurance to the Board on reported information, but at the moment internal audit expertise in this area is rare. Consultants other than accounting firms are being widely used, especially in the early stages of measurement and helping develop systems and processes. Scenario analysis was an area where expert guidance was commonly sought.
- There were a majority of AC-Chairs who referred to the involvement of the Big 4 firms in preparing their climate statements. In nearly all of these cases it was Big 4 firm other than their financial statements auditor. This reflected AC-Chairs concerns about ensuring there was independence and a divide between the preparation and the assurance of the climate statement.

- With regard to assurance of GHG emissions disclosures, a significant majority of the AC-Chairs are already using or are expecting to use their financial statement auditor to also assure these disclosures. The main reason for this is that the disclosures are becoming more mainstream and are being integrated into mainstream (annual) reports, creating synergistic benefits from both the perspective of the assurance provider and the reporting entity.
- Whilst no reporting entities were currently obtaining and publishing assurance over the climate statement, many were currently working through that decision. Some expected that the published climate statement information would be externally assured while some anticipated that the assurance may be only for internal purposes, to give the Boards confidence in the information that was being released to the market.
- Most of the AC-Chairs could not see a logic in having different assurance providers for the GHG information and the climate statements. Some were surprised that external assurance over the climate statement would not be required, which they saw as essential in order to build trust and confidence in that information.
- The main concern about the market or quality of assurance provider related to climate-related information was a concern about the depth of climate-related expertise that currently exists in New Zealand.



Methodology

Consistent with the views expressed by Bradbury (2020) and Simnett (2022) in providing an evidence-based approach to inform standard-setting, we conducted in-depth interviews of 20 Audit Committee Chairs (AC-Chairs) of entities in New Zealand during May-June 2023. Interviews were arranged by the XRB and were conducted one-on-one using Zoom by one of the authors. After an introduction (and receipt of permission to tape the interview from the interviewee) the full interview was recorded. Most interviews went for the allocated 45 minutes, with a few going slightly longer with the interviewee's permission.

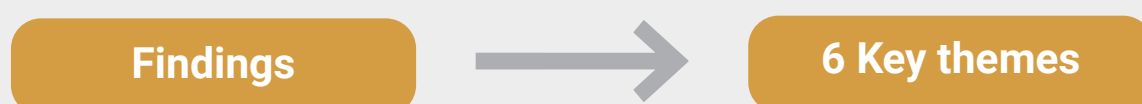
It was decided to interview AC-Chairs instead of using a survey. This approach is consistent with recent approaches undertaken by the AUASB in Australia, FRC in the UK and the PCAOB in the US. It allowed the responses to be explored in greater detail in order to provide deeper insights on audit quality from the perspective of AC-Chairs. The interviews were semi-structured in that when interviewees raised interesting points, follow-up questions were asked which sometimes meant that questions were asked in a slightly different order depending on the answers to earlier questions.

The form of unstructured interviews followed previous research (e.g., Malsch and Salterio 2016; Free, Trotman, and Trotman 2021). In particular, we asked interviewees to answer key questions based on a particular company where they were AC-Chairs but gave them the scope to draw on their other experiences on audit committees both past and present. All data reported removes individual names, company names, and audit firm names. Interviewees were informed of this both prior to and at the start of the interview which resulted in very frank and open discussions.

The content of the questions was agreed with the XRB based on the AC-Chairs interviews carried out in other jurisdictions (AUASB 2022, FRC 2022; PCAOB 2022). They were, however, adjusted to reflect the theme of building trust and confidence, and to gain the perspectives of AC-Chairs on the NZ climate-related initiatives, and the level of preparedness for forthcoming requirements. Areas covered included:

1. What factors enhance trust and confidence in reported information in New Zealand
2. What is role of audit in enhancing trust and confidence
3. What is financial statement audit quality
4. What factors are considered in selecting the audit firm
5. What engagement does the AC-Chair have with the auditor, and
6. What are AC-Chairs views on assurance over climate-related information.

In the following sections we outline our findings subdivided across these six themes.



1. Factors that enhance trust and confidence

What factors do you believe enhance trust and confidence in reported information in New Zealand?

Several AC-Chairs commented that currently there was a high level of trust and confidence in reported information in New Zealand, relative to elsewhere in the world. Not surprisingly, several AC-Chairs raised the issue of the tax scandal in Australia. The news on this item broke in January 2023 and it was still newsworthy in June. While it was not thought to be a serious issue in New Zealand, it “does cast a bit of a shadow” (AC 14). Another AC-Chair noted the fragility of trust and confidence, stating that “it is alright until it isn’t” (AC 15). Meaning that it only takes a financial scandal disaster to undermine trust and confidence.

The factors that AC-Chairs referred to in their discussion on trust and confidence were elements of the reporting supply chain, and the qualities of the reported information. The majority of AC-Chairs considered that independent audits were the main source of trust and confidence. Also important was reputation – the reputation of the auditor, the reputation of the reporting entity, and the reputation of those involved in governance.

To enhance trust and confidence, AC-Chairs considered that the information must be able to be understood by users. It should lack clutter and complexity, and be transparent and consistent (or comparable).

Almost half of the AC-Chairs considered the audit inspections enhanced trust and confidence.

“ FMA inspections, I think are important, because they provide some external credibility to the audit practitioners (AC 15)

However, a wide range of views were expressed on the processes carried out by the FMA.

“

Reading the financial accounts, reading the notes to the financial accounts and trying to understand them is probably beyond most people, Therefore, people tend to rely on the people who sit behind those accounts, the board members and their reputation and the reputation of the company itself. Auditing is critical to trust and confidence (AC 16).

If the Information source is from the corporation itself and management is providing it to other stakeholders, then trust and confidence is dependent on the honesty and the integrity of the management (AC 15).

As an audit committee, we ask, have we got a good quality audit firm. Obviously, independence is really important (AC 8).

“

If we are debating this issue with the auditors, in terms of whether it is really giving a clear perspective, is it really giving the user what is needed? (AC 14).

“

One's got to accept that FMA audit inspections are done for really good reasons. So, it's the process that's the problem. What it's done, I think, is that it has forced the audit firms and the audit partners to focus on compliance. This puts a lot of pressure on the audit committee about the standard of working papers that are provided to the auditors, because the regulator is going to come and look at that. This is compliance, as distinct from whether the papers are effective. It's almost form over substance (AC 5).

I think the FMA's reviews are worthwhile. I think the issue for the regulators is trying to work out what is the best value that they can bring, given the resource and capability they've got (AC 16).

Does alignment with international reporting standards contribute to that trust and confidence?

Most AC-Chairs believe that International Financial Reporting Standards (IFRS) is necessary for international funding, exporting, and talent transfer. They believe that IFRS provides consistency and comparability, which builds trust and confidence.

“

Any kind of international alignment does not make a difference unless you're in a situation where you're dealing with a company that is globally based (AC 16).

AC-Chairs considered that IFRS 16 (Leasing) and IAS 41 (Agriculture) increased the complexity of reporting. A more general complaint was directed at the need to report alternative performance measures (such as underlying earnings).

“

In some cases, the international accounting standards aren't actually that helpful in promoting confidence and transparency. The challenges of meeting some of those standards create a degree of complexity that I'm not sure always assists the reader and the outcome that the IFRS is seeking to achieve (AC 12).

“

IFRS aren't focusing on matters that help the readers understand the business and we end up having to report on the underlying results. Why should we have to do that? We have to do that because the accounting standards, drive us to a result that doesn't necessarily accurately reflect the performance of the business (AC 5).

Do you believe that the AC's role in enhancing trust and confidence in reported information is well balanced with the auditor's role?

All AC-Chairs thought there was a good balance between the roles of the audit committee and the auditors. The relevant factor was that the role of each party was mutually respected and understood. In some cases, however, the answer was qualified because there was some doubt expressed that others would see the roles as balanced.



It's got to be a mutual partnership and understanding of each other's role and responsibilities (AC 8).

In terms of audit committees that are made up of experience directors, I think the balance is appropriate. I think it's well understood and certainly the letter of engagement and the letter of representation makes it very clear who's responsible for what. But I suspect, amongst some audit committees and directors, and perhaps some readers of financial statements, they probably think the auditors do not take sufficient responsibility (AC 4).

I think there's a pretty good understanding by all directors. I think the shareholders would look to the auditors rather than the audit committee. So, I think there is quite a lot more reliance on the auditor than the audit committee and the audit opinion probably carries the most weight (AC 13).

Interestingly, some AC-Chairs commented on the balance between the audit committee and the rest of the board.



The imbalance is between full board ownership or just audit committee ownership, particularly when it comes to the risk perspective, because the risk isn't owned by the full board (AC 9).

Despite the heavy lifting done by the audit committee, all directors need to own the financial statements and it is always interesting to see what degree of interest that non-audit committee directors have in the half year and full year financial statements (AC 13).

Measures that reduce the potential imbalance between the audit committee and the main board are the AC-Chair formally reports to the board after each meeting and the increasing practice of non-audit committee board members attending audit committee meetings.

Several AC-Chairs were asked whether New Zealand should follow the UK practice of the audit committee formally reporting to shareholders in the annual report. There was no support for this proposal.



I wouldn't like us to have a separate audit committee report. I think the fact that the director signed the financial statements and put their name to them is the ultimate outcome. All the directors are responsible. I mean, we have collective responsibility (AC 17).

You run the risk that you actually reduce the ability to have that free and frank discussion between the auditors and the audit committee, because people are considering the public disclosure elements of it (AC 12).

It feels like adding more clutter into the report (AC 2)

2. Role of audit in enhancing trust and confidence

Does an audit undertaken in accordance with the XRB's auditing standards enhance trust and confidence in reported information in New Zealand? Why or why not?

A large majority of AC-Chairs agreed that the XRB's auditing standards were a most important factor contributing to trust and confidence in reported information. However, they also admitted they did not have a detailed knowledge of auditing standards, which they considered was the domain of the auditor. It was noted that not all audit committee members had an auditing background.

“

In terms of kind of delving into the exact details of the actual standards that the auditors are following, the audit committees that I'm involved with don't tend to do that (AC 12).

It's more a general awareness than specific (AC 15).

Knowledge of auditing standards is mostly behind the curtain, and we rely on the external auditor (AC 1).

One particular aspect of auditing standards that was mentioned in the context of improving trust and confidence by over half of the AC-Chairs was the concept of Key Audit Matters (KAMs). The reporting of KAMs was raised in different contexts. Almost all of the commentary was favourable.

“

I've got to say the I was never a great fan of the KAMs disclosures. My anxiety around them was more on the public domain and hanging your laundry out there. In reality that's not proved something to be concerned about. I think it's been a useful tool. I think, it has enhanced transparency, and I think that it's given readers a better understanding about things that all of us think are important (AC 2).

The engagement between auditors and the audit committee has changed for the better over a considerable amount of time. I think further enhancement has been gained through auditors highlighting key areas that they have focused on in their audit and with regard to the highest risk. These are also key issue for boards. In that sense, boards, or at least the non-executive directors, and the auditors are generally on the same page. I think in all cases there's been a proper and genuine effort to actually consider these matters from a risk profile point of view, and to focus on key risks and less so in terms of boilerplate (AC 3).

It just helps give the reader knowledge of areas that require greater judgement in decision making, and that there has been a separate set of eyes looking over these (AC 11).

While agreeing with the reporting of KAMs, one AC-Chair thought they left the “matter hanging” and thought that they focused on the process rather than the outcome (AC 4). Another noted that “we have got down to two KAMs and you wonder whether the auditors are thinking about the issues” (AC 20). Another AC-Chair considered that the level of materiality ought to be reported:

“ How can I have trust and confidence, if I don’t know the level of materiality (AC 18).

Does alignment with international auditing standards contribute to that trust and confidence?

AC-Chairs were generally positive about the XRB’s policy of alignment with international auditing standards (XRB 2022). The main reason for supporting the alignment was because of the global nature of New Zealand businesses. One chair pointed out that auditors themselves were a global business and their ability to use global connections (and have global alignment) has advantages.

“ As a small country, raising capital offshore (both equity and debt) I think there is a practical reason to be consistent (AC 1).

Disagreements, issues, and challenges can get escalated up from local, to national, to global or regional global (AC 8).

However, some AC-Chairs qualified their support for alignment with international auditing standards on the basis of the additional costs that it imposed. Aligning with international auditing standards, in particular recently ISA (NZ) 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatement*, was commonly cited by audit firms as a major justification for recent audit fee increases.

“ I don’t think we should bring things in from overseas just because they are overseas, if they are not actually adding any value and are just adding cost and compliance (AC 17).

Because of the level of cross-Tasman business, there was strong support for ensuring full alignment with Australian auditing standards, as outlined in the XRB’s Trans-Tasman Harmonisation policy (XRB 2022).

“ I do in principle (support the alignment with international auditing standards). But I certainly do in terms of Australia (AC 5).

“ It’s not desirable that Australia and New Zealand are doing something different to each other (AC 3).

What do you consider to be the value of audit? Do you have a story to share that demonstrates the value of the audit?

All AC-Chairs in our sample saw real value in the audit. A few noted that this view might not be universally held.



Some directors see no value in an audit. They just see it as a cost and some of the management teams see it like that also. And if you ask me to explain why, I would say that a lot of the standards drive a technical complexity (AC 5).

When you've got directors, themselves, asking about the usefulness of an audit, you have to assume there are probably some investors and shareholders that are asking the same question (AC 4).

In describing the value of an audit, most AC-Chairs referred to the core function of an independent verification of the financial statements, with almost as many AC-Chairs describing the audit as being of value to the directors.



There's a whole lot of procedures that are performed as part of an audit process and they give assurance around the financial statements and that is the core purpose and value (AC 10).

I know that the audit report is addressed to the shareholders. That's the duty of care owed by the audit firm, but they are a very important assurance provider to the directors as well (AC 4).

I think it provides far greater assurance for directors and, therefore, the investors and stakeholders in the business. So, I think the audit is really good value (AC 9).

I view the audit committee as the primary customer of the audit (AC 1).

The value from the core function is aided through assurance over controls. Several AC-Chairs commented that, while the auditors rarely found something new in terms of controls and systems, they did “provide early signalling of emerging issues” (AC 2); and “altered board priorities” (AC 3). One chair suggested that auditor’s review of controls was “a continuous improvement exercise” (AC 7).



We get internal audit reports coming through to our audit committee. The external auditor provides fresh eyes on the business, with a view to materiality rather than operational excellence (AC 4).

I do see a real value where major changes to control systems are occurring (AC 2).

Another area of comfort to the audit committee was over management's judgements. As noted earlier, KAMs were an effective tool in ensuring the auditor and audit committee were on the same page.



It ensures there is discipline and processes for the board itself. That there is an appropriate sign off at board level around aspects of the business where discretion is being used from an accounting perspective (AC 16).

I just don't know how the board would gain confidence about whether it was meeting its obligations without auditors helping us with the judgements; the key judgement that have to be made (AC 19).

Audits were also considered to add value over and above the assurance of the financial statements, by providing observations on the firm (e.g., the capacity and capability of management) and its environment.



The auditors look at things differently from management. They analyse things differently and take a different perspective. It can provide great insights, and that's the sort of stuff you value (AC 8).

In many cases, value won't relate to the financial statements themselves. Rather it would just be observations from the auditors whether they be about people (perhaps capacity, or capability) and cultural issues (AC 4).

I enjoy catching up with the auditors, to hear what is happening in the macro environment. What are they seeing for your industry? (AC 14).

Value is where the auditors have a perspective of what the sector is doing and what are some forward looking issues (AC 8).

The auditors can provide some anticipation of the potential roadblocks that lie ahead. The thing I get most out the audit are observations around the whole context of the business, and the level of management capability and the financial capacity (AC 15).

The real value from the audit is actually the non-financial piece. They are in our offices for all locations. They are talking to our staff. And we are sitting in a boardroom. They can observe behaviours and things that we would never really see (AC 17).

3. Financial statement audit quality

What do you consider to be good audit quality?

More than half the AC-Chairs considered good audit quality was related to the quality of the audit team (especially at partner level) and the relationship between the auditor and the audit committee. In this relationship the auditors are expected to challenge management appropriately. Audit quality depends on:



The skills of the team involved, especially partner level, and the specialists they can bring to the table (AC 8).

Strong leadership from the audit team, freedom to contact audit committee chairs at any time. It is very much a proactive relationship driven engagement (AC 11).

The audit personnel and their expertise. There is a strong expectation that where they see issues, they are going to be honest and upfront with us. They will have a willingness to be sceptical and challenge management. They will contribute to audit committee meetings and give a viewpoint (AC 8).

Auditors challenging management appropriately (AC 14).

A strong brand name was an important indicator of good audit quality.

AC-Chairs also highlighted more technical aspects of audit such sector or industry knowledge, the audit strategy and compliance with auditing standards.



Good audit quality depends on the brand, sector knowledge, the approach to the audit, and regular communication (AC 8).

Shareholders will have confidence in an audit firm that is complying with all the required standards and regulatory framework, and that is available at an AGM to answer any questions (AC 4).

What are your concerns about the audit market as a whole and where are there opportunities to improve trust and confidence or improve the value of the audit?

There are two main concerns that AC-Chairs have over the audit market as a whole: auditor concentration (by the Big 4 audit firms), and talent shortage. There was recognition of the argument that auditor concentration might lead to a lack of competition and the lowering of standards. However, most AC-Chairs did not seem to think this was, in fact, the case and commented on the importance of keeping the auditor independent from other advisory activities.



Because you only got 4 major providers it could potentially lead to the lowering of standards. However, it is a very competitive market (AC 11).

I think the pathway, around independence, that audit firms and the auditing profession is on, is the right one (AC 16).

I am into everybody being in their own swim lane. If you do my tax compliance, you don't give me consulting advice and you definitely don't do my audit (AC 20).

I wouldn't want to see the situation escalate such that an audit firm has to decide to be an auditor and not have any other specialties (AC 16).

There were mixed views over the use of non-Big 4 auditing firms to ease the concentration problem. A few AC-Chairs considered that the non-Big 4 audit firms would not have the resources to be able to audit their particular entities. Some thought that non-Big 4 audit firms did not have the brand name of the Big 4 auditor and were unlikely, either rightly or wrongly, to be acceptable to shareholders, especially so in considering a move from a Big 4 audit firm to a non-Big 4 auditing firm. These issues also arise when AC-Chairs discussed the factors considered when appointing auditors (section 4). There were however some AC-Chairs that had experience with non-Big 4 auditing firms for a reporting entity, and expressed satisfaction on the quality of auditing that they received from this audit firm.

AC-Chairs considered that the shortage of talent in the audit market, caused by Covid-19 and the attractiveness of the profession, was having a detrimental effect on attracting the right talent to the profession. This was seen to be especially felt in regional areas and has resulted in audit firms closing a number of regional offices. This has in turn resulted in at times audits being staffed from central locations, quite removed from where business operations are located.



There is a shrinking pool of capable individuals. At the end of the day, whilst you might employ a firm as an auditor, actually, you're employing the individuals. So, the capability of the individuals is important (AC 12).

In terms of improving the audit market, there were several suggestions. The most common was the use of improved data analytics and technology on the audit. Other suggestions were:

- Having an independent panel to assess auditor independence.
- Having a Sarbanes-Oxley type sign-off on controls.

How do you assess the quality of your audit on completion of the audit?

Nearly all AC-Chairs stated they held post-audit debrief sessions, one with the auditor and another with the management team. Most indicated this happened each year and some indicated that questionnaires were used.



It is really obvious to us, year on year, in terms of the sorts of issues that are being brought to our attention by the auditors and, whether or not, they are doing what I would call a thorough job. Was the audit timely? Was it constructive, from a management point of view? (AC 3).

Most AC-Chairs pointed out that the assessment of audit quality, did not happen just at the end of the audit. AC-Chairs assess audit quality based on the quality of conversations with the auditor. The most important feature was the alignment between the auditor's and the audit committee's assessment of risk.



It happens all the way through, even at the outset of the audit. The auditors look at the company and see what they think are key audit areas of risk (AC 6).

The audit committee has quite a bit of input into the audit, particularly with our knowledge of areas where we believe there may be a weakness, or where we may need more assurance. So, the first thing I'll do on quality of the audit is, go back to that plan (AC 9).

If the auditors differ from management, why? And are they giving a coherent response? And did they bring in the resources at the right time? (AC 1).

"No surprises" was considered by many AC-chairs as an important indicator of audit quality. Audit timeliness and communication are the main components of this aspect of audit quality.



The audit committee needs to get insights into audit conclusions with sufficient time for management and the committee to actually consider those issues and respond to them, before being forced into a reporting outcome. However, I would say that most of these conversations happen in the planning phase of the audit (AC 12).

I assess audit quality through the regular contact with the auditor and the way the auditor dealt with issues (AC 11).

The timetable is really key, and I know that's a that's a two way stretch and between management and the auditors. The board certainly do not like the audit and the financial statements coming together at the very last minute because it leaves you with the view - have any shortcuts been taken? (AC 4).

4. Selecting the audit firm

What factors are considered in appointing an audit firm?

Just over one-third of AC-Chairs had experienced a recent tender process for the selection and appointment of a new auditor. The reasons for these tenders were mostly the long tenure of the incumbent auditor, although in one case the relationship between management and the auditor had become “dysfunctional”. The answers of the AC-Chairs experiencing a recent tender did not materially differ from other chairs.

Three quarters of the AC-Chairs considered that the attributes of the potential audit partner (and the related team) was the major reason for the audit firm choice. Both relevant industry expertise and the personal qualities were commonly referred to. Industry expertise was seen as also extending to the audit firm, with depth of clients in an industry being a key factor, being nominated by just over half of the AC-Chairs.



We'd look at brand credibility, size, scale resources, the quality of the people fronting the audit that you're going to deal with, and their sector knowledge (AC 8).

Two factors: the firm and the partner. So, one's the brand name. And, if you're choosing a partner, it just has to be someone you can work with (AC 20).

The expertise that's displayed amongst the resources that they have available to them in relation to the industry (AC 15).

The lead auditor or engagement partner is the critical person, and the engagement between that person and the CFO is a critical relationship. There has to be a high degree of mutual respect in order for that relationship to work well. It's a balance, because you want the relationship to be constructive and you want the auditor to be challenging the things that should be challenged (AC 3).

Other factors commonly mentioned included the brand name and resources available (including geographical reach).



Has the ability to audit the subsidiaries around the world. So, it's making sure that you have a match of resources to where the work needs to be performed (AC 6).

We're a multinational firm. We need somebody who is able to audit across a number of different jurisdictions and manage that audit for us in a sensible fashion (AC 12).

Technology and innovations in the audit was a further factor.



The innovation that they bring to the audit, a focus on continuous improvement in their audit process (AC 1).

How they bring data analytics and technology to the audit is a really big one nowadays, and some of them are quicker than the others. A standard question for me now at audit committees is ChatGPT. How's that going to change the audit going forward, you know, tell us what it's going to do? And I saw 4 or 5 years ago, some of the firms jumped on it really quick with data analytics, they could actually run programs over 100% of the company's data, look for exceptions, look for duplicates, even do it better than the company was doing it, and it really made a big difference to the credibility of the firm and what they were bringing to the table, and the efficiencies that came of it (AC 8).

Price or value for money, in the form of a reasonable fee was mentioned as a factor by a quarter of the AC-Chairs.



*Reasonable fees.... the fees are probably the least [important] of the issues (AC 2).
Price, ensuring that you are getting value for money for the shareholders (AC 6).*

Is there merit in disclosing the tenure of the auditor or the audit firm? If so, where?

Before discussing auditor tenure disclosures, many AC-Chairs gave their opinions on audit partner and audit partner rotation. All but a few were comfortable with the stock exchange's requirement (NZX Listing Rule 2.13.3(f)) for a 5-year audit partner rotation. Several pointed out that the audit firms manage partner rotation well. While the arguments for audit firm rotation were understood, there were strong sentiments that the decision to change audit firm was a board decision and should not be mandatory.



We already have partner rotation. We always have the choice, as a company, to test the market for a new auditor (AC 8).

The directors themselves should be making the call around whether it is appropriate to rotate the audit firm. It should be the same as any other key advisor, on the basis of performance, or perhaps on the basis of long tenure (AC 13).

We have a formal discussion every year as to whether it makes sense to continue either with the current partner, or indeed with the firm (AC 1).

The arguments against audit firm rotation are that the auditor-firm connection is a very personal and stable relationship, there is a loss of experience with the change of an audit, it is costly and has a domino effect on the rotation of other Big 4 consultants, and audit partner rotation is sufficient to obtain the benefits “fresh eyes”.



There needs to be audit partner rotation. But the auditor relationship is very stable. It takes a lot to change it (AC 10).

I think the 5-year partner rotation thing is a nonsense. I honestly think that it undervalues the knowledge that you pick up. If you become a director, you don't instantly understand the business. It might take you a year or two. It's a bit the same with an audit. You do it for two or three years and you're just starting to understand what the business is all about. Then you rotate off (AC 5).

You almost end up with just staying with your 5-year partner rotation, because the cost of changing auditors is huge. Also, the fact that to change auditors means I've got to change every other consultant that I use to be able to do it (AC 20).

There is no small amount of challenge involved in moving all the consulting teams. You certainly do not want to be in a situation where you end up with a second-class audit because, the first-class people are providing other advice (AC 12).

There absolutely needs to be partner rotation. I don't think a firm rotation should be a requirement at all. There is a big difference between partners in style and background, both good and bad. So, I think you get the benefit of fresh eyes with partner rotation (AC 16).

The disclosure of audit tenure was not broadly opposed, rather than being strongly supported. There was slightly more opposing the disclosure of audit firm tenure compared with the disclosure of audit partner tenure, and this appeared to be related to those arguing against the possibly imposition of audit firm tenure. The AC-Chairs that thought disclosure was appropriate argued on the basis of improved transparency.



I'm big into disclosure and transparency. So I have no problems disclosing it, because I think in all the cases I'm associated with, I think it adds credibility and trust. another part of it is to look to see who the specialists are that are brought to the table, whether it's technology, treasury, valuation specialist.... Yeah, I'd be open to that disclosure (AC 8).

I guess my view is that transparency is the better option [than mandated audit firm rotation]. So, I don't have a problem with disclosure of that if XX [years] is a specific marker, and if you like, I guess it makes us reflect more on whether that's appropriate. I suspect disclosure is better than a mandate (AC 12).

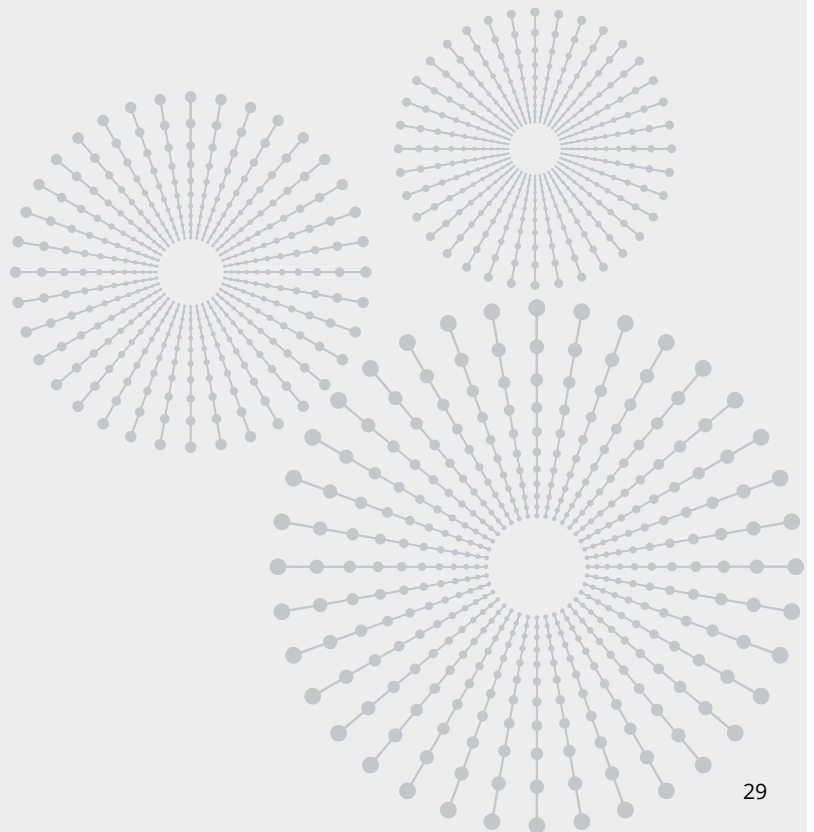
Disclosure was opposed by some AC-Chairs on the grounds that it was unnecessary, redundant because the information was available elsewhere, and because partner rotation was mandatory.



But I'm not sure how that helps. What is that saying to the market? Because you lose a whole lot of corporate knowledge. So if you said they have been the auditors for 15 years. Would you say that was negative? (AC 5).

If we ended up with a disclosure of firm tenure and that flowed through to mandatory firm rotation, I think that would actually be a backward step in New Zealand, given the size of our market.... I look at it within the context that companies, whether it's management or the directors themselves, should be making the call around whether it is appropriate to rotate out (AC 4).

If audit tenure disclosure was going to occur, the preferred location for this disclosure was in the governance section of the annual report. The audit report, notes to the accounts and the corporate directory equally received minor support.



5. Engagement with the auditor outside audit committee meetings

What is the type and frequency of AC-Chairs engagement with the auditor outside formal audit committee meetings?

Engagement with the auditor outside of the formal audit committee meetings was considered important by all AC-Chairs. Pre-audit committee meetings whenever the auditors were presenting to the audit committee were very common. In particular, as reflected in the following quotes, this would be around the presentation of the audit plan, and the discussion of preliminary findings from the half-year and full-year audits.

“

I certainly always look to meet offline with the auditor when they're presenting the audit plan, when they're presenting the results of the interim audit, and when they're presenting the final audit results (AC 12).

Where we've got anything coming from the auditors to the committee... so that will include when the audit plan is coming to the committee... [and] at the time of interim and final financial statements (AC 4).

Other meetings with the auditor outside the pre-audit committee meetings were common. The frequency of these other meetings with auditors varied considerably among the AC-Chairs (ranging from no other meetings to monthly). These further meetings appeared to be related to the desire of the AC-Chair to maintain clear lines of communication, or specific issues arising related to the audit, such as changes in circumstances of the entity, or specific accounting or audit issues.

AC-Chairs emphasised the informal nature or on-demand nature of communication with the auditor. It was also considered to be a two-way channel, with either the AC-Chair or the auditor expected to initiate communication if necessary. This was seen to be important to the efficiency of the audit and the adage of “no surprises” was commonly raised.

“

I feel comfortable that if I have any questions, I can pick up the phone immediately and talk to the partner as I need. The main reason for wanting to have a chat is to make sure that everything is coming along as expected. That there are no surprises (AC 6).

Just to catch up with the partner and director on the audit just to talk to you about what are the issues in their eyes? And how they're being dealt with? Anything that we should be following up as an audit committee... This goes to the efficiency of the audit, and it's just I guess, to avoid having any surprises at the end (AC 11).

The auditor can call me to chat through how things are going and what the issues are. A short time earlier we were talking about what we knew was going to be an interesting judgement relating to impairment. We talked about how to tackle that. So, if I had any issues, I would pick up the phone without hesitation, and likewise (AC 13).

The importance of building this relationship with the auditor outside formal meetings was emphasised.

“

I think, when you've got difficult conversations to be had, it doesn't matter what the topic is, it is very difficult to do that with people that you have no relationship with. And so you need to form a relationship. It's based on trust and a mutual respect for the capability of the people (AC 16).

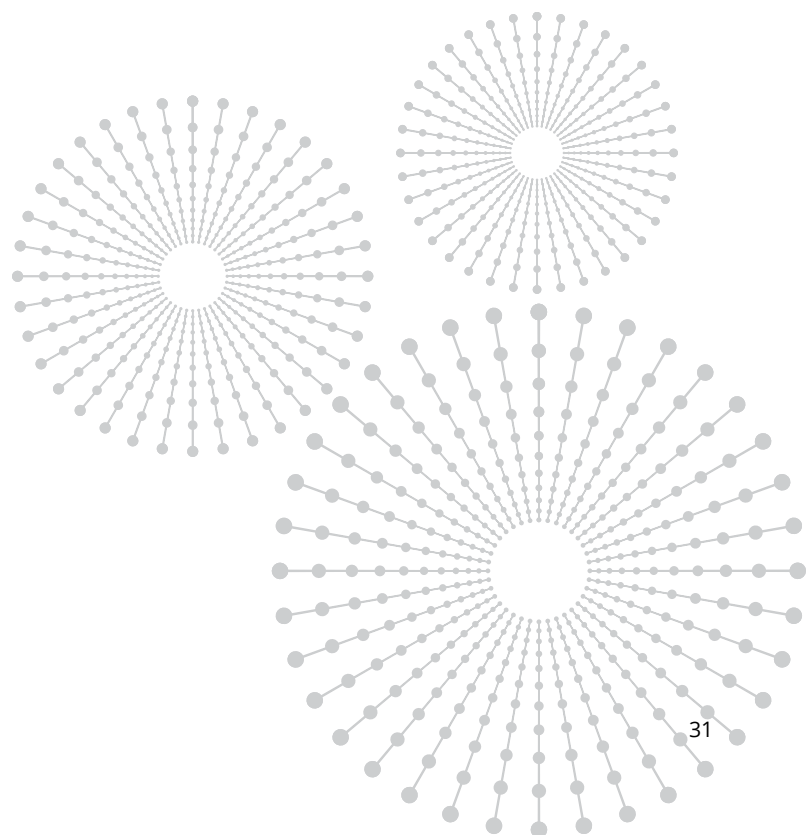
In terms of communication, several AC-Chairs noted two emerging trends: the auditor attending all audit committee meetings, and non-audit committee board members occasionally attending audit committee meetings.

“

Another thing that I think works really well, is having the external auditor sit through the entire audit committee meeting. They can hear about risks that are talked about, which may help them focus their testing a bit more. Or if something comes up from an audit perspective, if the auditors are in the room, we can ask them straight away. I think that's really helpful (AC 14).

It's not that uncommon for us, that all of the board will come into the audit committee meeting as observers (AC 3).

Although not prompted, a number of AC-Chairs were keen to emphasise that this relationship was one of trust and respect, and the importance of maintaining a position of independence.



6. Assurance over climate-related information

Will the entities for which you are AC-Chair obtain outside assistance to prepare their climate statements? Over what aspects and why?

A number of entities were already preparing, or were well advanced in preparing, their climate statements. A number had been reporting, or preparing to report, in accordance with TCFD, thus were able to talk about the outside assistance they had sourced in preparing this information. Others were in consideration mode and were able to talk about planned or expected journey. This journey even differed for a number of AC-Chairs for their portfolio of roles, as demonstrated by the following quote.

“

It varies when I look across my portfolio [depending on] the levels of maturity and progress on the journey for different organisations. Some are well down the path. They've already reported, or published, TCFD, or greenhouse gas emission reports with assurance over those. "Others are much earlier on in the journey, so... those organisations seek input from professional advisors. Now in terms of... looking at systems and processes for gathering and assessing climate risk reporting data, that doesn't need to be from your assurance provider (AC 4)"

Nearly all AC-Chairs had entities that were using, or expected to use, external consultants to prepare their climate statements. The main reason for using external consultants was the lack of in-house expertise over this new area. This is demonstrated by the following quote:

“

With the whole preparation of the climate statement, all the measurements and everything, because just we haven't got the capacity in house [and] all the knowledge in house to start. So, all of my public companies are using external consultants (AC 20)."

For those reporting entities that have internal audit, the expectation is that internal audit will be heavily involved in developing systems and processes, and potentially providing assurance to the Board on reported information, even if it means investing in developing their expertise. At the moment, this expertise is rare, and what expertise is available in the market is heavily sought. The role of internal audit is summarised in the following quote:

“

A number of my entities have talked about using internal audit to [develop and] provide assurance over some of the stuff that's coming through into the reporting, and we're using XXX. Everybody seems to be using XXX to determine the emissions, footprint, and all that sort of stuff.... Well, if internal audit doesn't have the capability, we need to be really clear about whether internal audit should be doing it, or whether external audit should be doing it. And so, we are using internal audit for how we collect the data and how we pull through together on some of our systems and processes and that sort of stuff. But then we will be using external audit for the reporting assurance piece (AC 10).

Because of the lack of internal expertise, consultants (and commonly more than one consultant) are being used, or expected to be used, by most reporting entities. Consultants other than accounting firms are being widely used, especially in the early stages of measurement and helping develop systems and processes. A particular consulting firm was widely mentioned, and seems to be widely used, but a number of other consultancies are being used.

Scenario analysis was an area where expert guidance was commonly sought.

“

...we participated in the XRB recommended scenario climate change, scenario mahi which was helpful, because then we went through the [industry] Sector scenarios, and we had the assistance from XXX, who came in and helped us with the models and understand that. And also, you had input and collaboration from the sector. So that was helpful. And then on the other side, we've gone out to XXX to also help us with our climate scenarios for our organisation (AC 14).

One observation on scenario analysis related to the desire to have comparable industry-specific scenarios, is the approach which is being used by industry players. While this approach will aid comparability, it potentially may limit true scenario development and planning within an organisation. This view was expressed in the following quote:

“

A number of industry players have got together, and they've all decided to employ one party to help prepare the scenarios rather than each of them preparing their own scenarios, and then trying to kind of argue against each other. They have instructed a single advisor to prepare the scenarios, and that the group will then effectively use those scenarios to go back into the businesses. And that's a challenge, and it's a direct response to the fact that they have seen they want industry-based scenarios. You know, you can't just develop your own to have some degree of comparability across industry (AC 12).

There was also a majority of AC-Chairs who referred to the involvement of the Big 4 firms in preparing their climate statements. In nearly all of these cases it was a Big 4 firm other than their financial statements auditor. This reflected AC-Chairs concerns about ensuring there was independence and a divide between the preparation and the assurance of the climate statement. This was reflected in the following quote.



So, we moved to TCFD disclosures 2 reports ago and we used [Big 4 but not financial statement auditor] to assist us in preparing those disclosures obviously, you know, it's a separate piece of work to the audit. Auditors can't be involved in the preparation of the material that they [are] going to audit. So it was, you know at that point, when we moved to TCFD climate-related disclosures, it was on the cards of it being made mandatory. So, for a whole lot of reasons, we ended up with [Big 4 but not financial statement auditor] doing it (AC 12).

As assurance over Greenhouse Gas Emissions Disclosures is mandatory from 27 October 2024, who will you engage to assure your GHG emissions disclosures and why?

A significant majority of the AC-Chairs were already using or are expecting to use their financial statement auditor to also assure their GHG emissions disclosures. The main reason for using their financial statement auditor is that the disclosures are becoming more mainstream and are being integrated into mainstream (annual) reports. They require the assurer to understand the governance, strategy and risk management processes of the entity, knowledge that the financial statement auditor should have. There were also potential direct impacts into the financial statements through areas such as stranded and impaired assets, and associated liabilities. For these reasons there were seen to be synergies in using the same firm as the financial statement auditor. This is demonstrated by the following quotes:



[We produce an integrated report] I guess there's almost ..., what I'm seeing is, a default to the financial statement auditor (AC 2).

We've debated whether the external auditors can do the assurance working in this space and generally we've agreed they can, but obviously they can't do any advisory work. And the reason we made the decision that they can do the assurance work is that the details ... whether it's a financial reporting number or sustainability recording number, they're going to come through the same systems and so forth (AC 5).

We've used the external financial statement auditor all the time. That's fine. I think there will always be an element that from a management perspective, they kind of know the firm, they know the people, and it's probably a natural go-to (AC 4).

“

Currently we have appointed [Big 4] And there are 2 partners, one to assure us on the financial side, one to assure us on the on the kind of greenhouse gases or all climate-related (AC 9).

If it's going out with the financial statements, we want the external auditors to give us a sign off (AC 10).

The external auditors have been definitely putting it to us, rightly, putting forward they that would probably be the best people to do it. Because they are in it, anyway, and they see the full picture of our business and while they're doing external audit, they could also do that, as an add-on (AC 14).

Of those that are currently getting their GHG emissions disclosures assured, nearly all are using their Big 4 financial statement auditor, for the synergistic reasons outlined above.

One entity was using an external consultant to provide internal (Board) assurance on GHG emissions disclosures, but is reconsidering that:

“

We had been separately verifying greenhouse gas emissions within the business for some many years prior to that using XXX.... So, in terms of the go forward, I think we will continue to use somebody external. I think, possibly even more than we have in the past, we really need to understand the impact of physical risk on the nature of the business. I suspect that there will be changes that we will have to think about as we move down that path. As I said, we've got good data and assurance around greenhouse gas element of the reporting. The challenge is more around climate-related disclosures, and the need to ensure that our response is deeply integrated into the strategy and the governance of the organisation. So, I think today it would be fair to say, it has been somewhat standalone, and there is a real need to integrate. And you know, as we go down that path, we may find we need more assistance than we have. We have an [internal] team that is independently verifying that data, and so that will enable us to seek assurance from our auditors around that data. This will probably be our [Big 4] financial statement audit firm, but that's not a discussion that we have had at this point. But I guess my starting proposition would be our Big 4 financial statement audit firm (AC 12).

Of the slight majority of AC-Chairs that are currently going through a consideration of assurance provider for GHG emissions disclosures, all except three expected the assurance provider to also come from their Big 4 financial statement audit firm. Two of these other three expected the assurance provider to come from the Big 4, but not necessarily their auditor.

“

It's likely to probably like to be one of the Big 4, I guess. And the reason why I say that is just because they've probably got access to global capability and places that are ahead of us in this sort of area, that they could tap into (AC 16).



...it's probably easy to use [same firm as Big 4 financial statement auditor] but you know do they have the kind of capability to do it. Yeah, it's not simple. ...but you know we haven't decided you know. Let's get through this year [in preparation] for March 2024 (AC 17).

The third not using their financial statement auditor expected to use the same consulting firm that had helped them develop their systems and processes, but raised the question as to whether this precluded them from providing assurance:



I think that's where we get XXX to do that [provide assurance], can they do that? I can't tell you 110 per cent, but I'm pretty sure that's the plan. We will be having a meeting with the Audit Committee, a standalone meeting on this full subject in the next few months. Once we get through the annual report and everything I'll know for sure. But that's my understanding (AC 18).

A theme that was brought up by some of the AC-Chairs was the need to consider the independence of the assurance provider. This is reflected in the following quotes:



In no instance have we used the audit firm to help us work out what our processes should be. So we're very much keeping them entirely independent, and they're for the purpose of assurance, independent assurance (AC 3).

We reviewed our independence policies to allow for the external financial auditor to do that work as well as if that's the choice we make. So we haven't actually made [the decision] but I think that's probably the expectation. We've debated whether the external auditors can do the assurance working in that space and generally we've agreed they can, but obviously they can't do any advisory work (AC 5).

We are not using the financial statement auditors for the preparation of all the information and the audit of the accuracy of that information. But I think we will be using the financial statement auditors in terms of what needs to be disclosed in the accounts (AC 6).

And yeah, we don't know at this stage if [our financial statement] auditors are going to be allowed to do that, but we know it needs to be an expert in the field (AC 11).

Will you voluntarily obtain assurance over the climate statement and why?

As distinct from GHG emissions disclosures, no reporting entities were currently obtaining and publishing assurance over the climate statement. Many were currently working through that decision and expected that the information would be externally assured. Some anticipated the assurance may be only for internal purposes, to give the Boards confidence in the information that was being released to the market. Some were surprised that assurance over the climate statement would not be required.

Of those who were working through the assurance decision and expected that the information would be externally assured, examples of the rationales for that expectation were reflected in the following quotes:

“

We don't want to release that stuff until at least we've got good assurance over it. We don't want to be accused of greenhouse washing. We don't let stuff out in the marketplace that's going to come back to bite us. So we want that peace of mind and assurance that we're not misleading anybody (AC 8).

Yes, because I think of it from a consumer perspective when it comes to that space. So if you think about the risk on organisations of greenwashing, of saying that they're doing things that they aren't doing. You know, from all of that is a much higher risk.... It's around making sure that what we're saying in our annual reports, but also what we're saying when we're delivering products, etc, is accurate (AC 9).

I mean you can tell us it's in the early days for us in XXX to decide on that. But we see it as an area where we can probably differentiate, distinguish ourselves from some of the bigger [industry players] and being more transparent in terms of what's happening (AC 11).

But I think it's like, say, I'm involved in some of these issues, especially with the climate-related incidents and events that we've experienced [in New Zealand] in the past three or four months.... some organisations will see it as a marketing exercise and others will see it as an obligation. I think somewhere in between the two there needs to be struck a balance that you know you're doing this because it's the right thing to do. And you're making these disclosures and declarations because it's the right thing to disclose to declare. But they have to be accurate. They have to be true, and they have to be validated (AC 15).

For those who saw assurance as necessary to the Board, this could either come through management, internal audit or an external assurance provider.

“

.... obviously we have our management letter to the directors in relation to the financials which backs up the one that the board provides to the auditors. So the question is, should we be looking for something similar in relation to non-financial reporting or climate reporting? (AC 13).

So that is something of a work-in-progress for us. As to how we do that we've had various external providers and help with our approach to this, "but as far as... formalising the assurance, that is still to be determined (AC 14)."

A couple of AC-Chairs were surprised that assurance would not be required over the climate statement or elements of the climate statement, in order to build trust and confidence in the information. This is reflected by the following quote:

“

So, I'm thinking about one specific element, say the climate scenarios, and then we have to go and quantify the financial risk that comes out of those. I assumed, because there will be numbers attached to this. That it will need to be audited. So that's in addition to the greenhouse gas and carbon emission data. I assumed that we're going to have to get that audited. You couldn't just put some financial data saying, if we're looking at 20 or 30 lost operating days a year because of extreme climate events. We quantify that cost to be, I don't know, a couple of million a day. I mean, it works out to be 40 million lost revenue a year. And then we go and put that number in, I would have thought that there has to be some sort of assurance element over that to ensure we've got trust and confidence over what we're disclosing (AC 14).

If the scope of mandatory assurance extends to the full climate statement, who will you engage to assure your climate statements and why?

For most, the decision of assurance provider and the rationale was similar to that for the choice of assurance provider of the GHG emissions disclosures. In fact, in addition to the synergies of using the financial statement auditor, most could not see a logic in having different assurance providers for the GHG emissions disclosures and the climate statements. This is summed up by the following quotes:

“

If the audit firm that we use for the financial statements has the resources or the ability to provide that assurance then it would make sense to use them, because we are getting the whole service from one service provider; rather than having one half of the audit by one company, and having another company auditing the climate notes or disclosures (AC 6).

I see some firm synergies, from having the external auditor do the audit and any other assurance where it's sustainability, greenhouse gases, the whole works.... And I'm quite comfortable with that, and I think that should generate some benefits. They can have separate teams (AC 8)

This is business for the auditors to lose (AC 10).

A small number of AC-Chairs did draw the distinction between assurance on GHG emissions disclosures and assurance on the climate statement. This is reflected in the following quotes.

“

I think it is going to be incumbent upon companies and boards and directors to be challenging, well, do we automatically go to our financial statement auditor? Or do we look for a particular specialty from other advisors? Now, the thing I actually haven't looked closely into is whether the assurance providers for those full climate reporting requirements need to be registered with the FMA. I haven't looked closely at that, because we're not kind of at that point yet (AC 4).

“

It makes sense it is your external auditors because they know your business. Well hang on, I'll pause here a little bit. We've got a specialist consultant to help us with our climate scenarios and the quantification of the financial dollars for [industry].... It may make sense to go back to this global organisation that specialises in climate change to say "where is your assurance arm and maybe we should be using you". They may bring more trust and confidence. Right? We still have to work through it and see how this unfolds (AC 14).

Some are working through a process towards 2024, with the expectation of assurance in later years.

“

Yeah. And the first ones are my December balance dates and so we don't have to have them assured on December 23 but we're going to get them assured internally, but not report this externally So that we know the process, and we're comfortable for 2024 and identify any gaps (AC 20).

What are your views or concerns about the market or quality of assurance providers related to climate-related information?

The main concern about the market or quality of assurance provider related to climate-related information was a concern of the depth of expertise that currently exists in the New Zealand market. This concern did not seem to be unrelated to concerns expressed around the depth of the financial statement audit market. This was represented in the following quotes:

“

My challenge to the [major accounting firms] was "have they got enough skills and expertise to provide the assurance" because I see it as a big market opportunity. I didn't get a compelling answer back (AC 8).

....my concern is the lack of depth in the market, so increasingly, the firms that are front footing the thinking on climate-related disclosures are the same [big] four firms. So, it is possible for other parties to advise on particular aspects of it. But those parties are not well equipped to provide expertise in terms of disclosure reporting. And so, you end up pretty quickly back in the same very small pool (AC 12).

Do they have the expertise and the resources? Cause it could be a bit of a lolly jar for them at the moment. Right? There are so many new areas. It is difficult for Boards to assess the quality of an assurance provider for a new assurance service. So, it's easy for them to put their best foot forward. They've just got to make sure they can deliver (AC 14).

This concern also extended from the assurance providers to the regulators.

“ *It's not entirely obvious to me what the level of in-depth [assurance] expertise is. And it's the same with Regulators coming to grips with [this information]. You [need to] know whether people are selling a story as opposed to green washing or greenwashing as opposed to genuinely making inroads and in making a positive difference (AC 3).* ”

The view of lack of expertise was not shared by all AC-Chairs. Some saw this as the panacea for a declining profession. This is reflected in the following quotes:

“ *They are gearing up. And you've got partners involved with this. But I genuinely think (and we talked earlier about the attractiveness of the industry) these are the things that will attract younger people to stay. This could be a career path (AC 2).* ”

There are some really good quality people out there. In some cases, people have come back to New Zealand from overseas and so forth. So, I think the short answer is, I believe there's probably no concern about the quality of [assurance] people [attracted back to the profession] (AC 3).

One of the areas identified as important for alignment with international standards is especially the area of climate-related reporting. This is illustrated by the following quote:

“ *I think that [international] consistency is important, especially with climate-related standards, because that's quite a new area. And everyone's trying to figure this out, and for most people there's no textbook on how to do it. The XRB has come forward with some really good guidance which has been really helpful. But for most people this is the first time, and a lot of people in the organisations aren't trained to do this. So, it is helpful when it's aligned with international... Then you've got consistency; you can pick up international accounts and have a look and see what it looks like and what they're doing here. And we learn from each other. And we can evolve together as a global unit. It makes it quite difficult if we're not aligned (AC 14).* ”

Several comments were made about the advantages of the Big 4 as assurance providers on climate-related information. While this did not preclude boutique or other assurance providers from the accounting profession, from providing assurance, or continue to provide related specialist consulting or advisory services, advantages of the Big 4 mentioned were their international reach, their capacity-building ability, their knowledge of reporting and disclosure issues and the expectations of stakeholders as to which assurance providers were preferred.

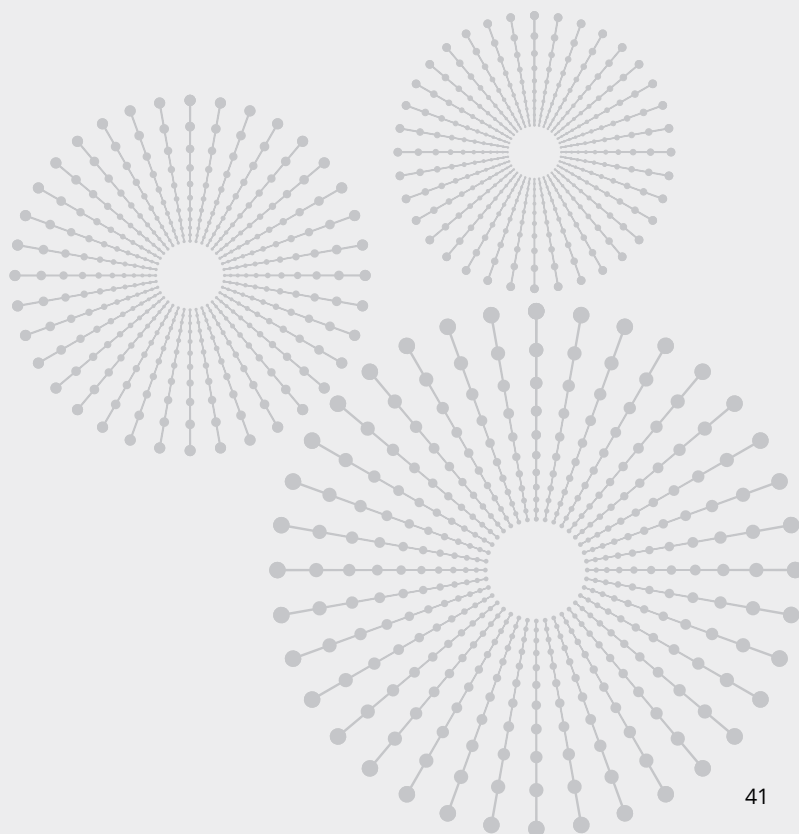
These issues are reflected in the following quotes:



So, when you talk about the Big 4, of course, that it's already these regulations worldwide that they are tapping into, so they are a bit ahead of the game. If you're getting any auditors at that second tier, they're going to have to work a lot harder to get to that level (AC 8).

There is no guarantee that the people within the Big 4 have got the same level of experience, skills and exposure to all matters relating to climate reporting, that perhaps specialist advisory firms have. So, you don't want to think, Oh, my goodness! We've got to engage one of the big 4 (a) that's going to cost us an arm and a leg, and (b) we're not sure that they have the best [expertise] anyway, but we are kind of forced into it [by our stakeholder expectations] (AC 4).

Some of the [reporting and requirements are] quite complicated.... and so is there a chance that we will mess up. And then in retrospect, if we had.... big revisions, ...people are less tolerant of mistakes after they occur. XRB says they're going to be relatively tolerant if you make your best effort and there's revisions. We understand that's the way it's going to work, and that's fine. It's just sometimes that's forgotten when a company is made an example of (AC 1).



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Appendix 1: Comparative findings from the interviews of New Zealand Audit Committee Chairs (AC-Chairs) with other Jurisdiction's interviews of AC-Chairs

This table compares the results of NZ AC-Chair interviews with similar interviews undertaken in Australia and the UK. We report the results for the NZ interview, extracted from the summary of major issues identified, outline the major comparative findings of the other interviews, and make some observations of major similarities or differences.

There are differences in the various questions explored with AC-Chairs in the different jurisdictions, such that not all questions have relative comparisons. Furthermore, the focus of the interviews are different. The emphasis of the New Zealand interviews was around enhancing trust and confidence in reported information while the emphasis of the Australian and UK study was to assess audit quality. The various timing of the interviews means that the events and conditions are different (e.g., economic conditions, COVID, Ukraine invasion, Parliamentary inquiries). This can also impact the responses.

Trust and confidence in general

Overall level of trust and confidence or audit quality	
NZ Findings	AC-Chairs did not perceive any problems with the level of trust and confidence in reported information in New Zealand at the current time.
Australia Findings	It was unanimous among the AC-Chairs that there was a high level of satisfaction with the quality of the audits they were involved with. It was pointed out by a number of AC-Chairs that if they were unhappy with any aspect of the quality, that it would be addressed quickly.
UK Findings	No specific overall conclusion on trust and confidence or quality of audit.
Considerations/ recommendations	Ensure NZ findings are a major theme in any communications.

Factors that enhance trust and confidence

Factors enhancing trust and confidence in reported information	
NZ Findings	Commonly referred to in their discussion on trust and confidence were elements of the reporting supply chain and the qualities of the reported information. The majority of AC-Chairs considered that independent audits were the main source of trust and confidence.
Australia Findings	Not the focus, but general comments and views similar to New Zealand

Factors that enhance trust and confidence (continued)

Factors enhancing trust and confidence in reported information (continued)

UK Findings No specific overall conclusion on trust and confidence or quality of audit.

Considerations/
recommendations Ensure NZ findings are a major theme in any communications.

Aligning with international reporting standards

NZ Findings Alignment with international accounting standards is necessary for international funding, trade, and the transferability of talent. Some AC-Chairs indicated that departures should be considered for New Zealand specific circumstances or New Zealand benefit-cost analysis.

Australia Findings Not the focus, no mention.

UK Findings Not the focus, no mention.

Considerations/
recommendations This is consistent with, and reaffirms, the XRB’s multi-sector multi-tiered Accounting Standards Framework. XRB may wish to consider whether there is any benefit in reinforcing the communication the XRB’s policy of aligning with international reporting standards policy.

The balance of audit committee role with that of the auditor

NZ Findings Considered well balanced, and the respective roles are well understood. Some concern that the full board might not take appropriate responsibility for audit committee decisions, or that the general public may not fully appreciate the role of the audit committee with respect to audit quality.

Australia Findings Not examined.

UK Findings Not examined.

Considerations/
recommendations While importance of all parties (management, Board and audit committee, auditor, and regulators/standard-setters) to trust and confidence/quality of reported information, the importance of high quality of interactions between these parties came through strongly in New Zealand. Consider this perspective in any communications.

Role of audit in enhancing trust and confidence

National auditing standards and alignment with international auditing standards

NZ Findings Audit is the most important factor contributing to trust and confidence in reported information.

Because of the level of cross-Tasman business, there was strong support for ensuring full alignment with Australian auditing standards.

Australia Findings A most important factor contributing to value of audit. Execution of audits in accordance with national audit standards was often taken as a given.

No mention of alignment with New Zealand auditing standards.

Role of audit in enhancing trust and confidence (continued)

National auditing standards and alignment with international auditing standards (continued)

UK Findings	Alignment with or strength of national auditing standards was not mentioned as a significant factor in AC-Chairs assessing audit quality.
Considerations/ recommendations	<p>The application of national audit standards was probably implicitly assumed across all interviews.</p> <p>The NZ results are consistent with the XRB's strategy of alignment with international auditing standards and harmonisation with Australian standards. XRB may wish to consider whether there is any benefit in reinforcing the communication the XRB's policy of aligning with international auditing standards policy and harmonisation with Australian accounting and auditing standards.</p>

Value of the audit

NZ Findings	<p>All AC-Chairs highly valued the audit. The majority stated that the value of audit lay in its core function of independent verification of the financial statements.</p> <p>Value to the directors is aided through providing an early signaling of emerging issues, identification of weaknesses and insights on systems and controls, and recommendations for enhancements.</p> <p>Value was further enhanced by auditors using their expertise to provide observations on key management judgements, the firm (e.g., the capacity and capability of management) and the firms environment. (e.g. sector trends).</p>
Australia Findings	No difference to NZ. Value enhancements were sometimes described as add-ons to core function.
UK Findings	Not really covered.
Considerations/ recommendations	No recommendations unless a publication for benefit of audit committees is being undertaken.

Financial statement audit quality

Factors associated with good audit quality

NZ Findings	(1) the quality of the audit team (especially at partner level) and (2) the relationship between the auditor and the audit committee. In this relationship the auditors are expected to challenge management appropriately. AC-Chairs also highlighted more technical aspects of audit such as sector or industry knowledge, a comprehensive audit strategy and compliance with auditing standards.
Australia Findings	(a) the audit conducted is consistent with accounting, audit and ethical standards; (b) the relationship and engagement between the engagement partner and the AC, particularly the AC-Chair; (c) capacity of the audit team, particularly the engagement / signing partner(s); and (d) the audit firm and its reputation.
UK Findings	<p>Proper planning – alongside knowledge of the business and the specific sector – communication, and timeliness from the audit team. The lead audit partner also has a significant impact on perceptions of audit quality.</p> <p>Audit 'brand' is perceived as relatively unimportant in driving audit quality provided that the firm has suitable capacity, including the international network that may be needed.</p>

Financial statement audit quality (continued)

Factors associated with good audit quality (continued)

Considerations/ recommendations	Similar factors, especially the quality of the relationships was emphasised in Australia and New Zealand and UK.
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Major concerns on audit market

NZ Findings	<p>The two main concerns that AC-Chairs have over the audit market as a whole are: auditor concentration (by the Big 4 audit firms) and talent attraction and retention in the audit profession.</p> <p>The talent attraction and retention issue in the audit market was especially felt in regional areas, resulting in audit firms recently closing a number of regional offices. This has in turn resulted in at times audits being staffed from central locations, quite removed from where business operations are located.</p>
Australia Findings	<p>The major concerns raised were around the possible imposition of an audit firm rotation policy, and the role of ASIC inspections.</p> <p>AC-Chairs raised the point that where they were using the other three Big 4 firms for other services and so in order for these firms to tender, they needed to go through a cleansing process. In addition, the role of ASIC inspections impacting audit quality was raised as a concern. While all saw the need for an independent inspection process, issues around the conduct of the process were raised.</p> <p>A number of AC-Chairs raised concerns about the challenges of auditing firms attracting and retaining high quality staff. These issues were raised in discussions about competition for new talent and also in discussion of the adverse publicity for the profession related to ASIC findings.</p>
UK Findings	NA, general concerns on audit market not covered.
Considerations/ recommendations	<p>Similar concerns were raised in New Zealand and Australia. However, the answers appear in different parts of the interview report. The answers may also reflect the issues receiving different emphasis in the two countries.</p> <p>In the Australian interviews, concerns around auditor concentration were raised in the context of a firm rotation policy, which the Australian Parliamentary Joint Committee had put on the agenda. In the New Zealand interviews, general opposition to an audit firm rotation policy was raised in the context of auditor switching.</p> <p>The general concern of talent attraction and retention in the audit market raised in New Zealand was discussed in Australia around the negative press arising from inspection findings.</p> <p>The issue occasionally raised in New Zealand of talent attraction and retention issue in regional areas was not raised in Australia.</p>

Concerns raised around audit standards

NZ Findings	No concerns raised around quality of auditing standards. Only concern raised was that some AC-Chairs considered that New Zealand alignment with international auditing standards was used to justify audit fee increases. ISA (NZ) 315 (Revised 2019) was the standard referred to.
Australia Findings	A small number of AC-Chairs raised concerns that auditing standards have become more rules based over the last 20 years which reduces the focus on intuition and judgement, and that auditing standards have not kept up with technology.

Financial statement audit quality (continued)

Concerns raised around audit standards (continued)

UK Findings	The increase in rules and regulations have made audits more complex, expensive, and more about ticking boxes without necessarily picking out the ‘bad apples’. Furthermore, auditors can become consumed with the technical aspects of the audit without seeing the ‘bigger picture’.
Considerations/ recommendations	Prescriptiveness of auditing standards not raised as a concern by New Zealand AC-Chairs.

Opportunity to enhance trust and confidence and improve quality of the audit

NZ Findings	The most common suggestion was the use of improved data analytics and technology on the audit. Other suggestions were having an independent panel assess auditor independence, and having a Sarbanes-Oxley type sign-off on controls.
Australia Findings	The most common area for improvement identified was better use of data analytics and technology. Other issues mentioned were greater use, co-ordination or reliance on the work of internal audit, and group audit, given the auditor’s ability to provide insights to the audit committee on other parts of the group.
UK Findings	Not really discussed, except that variations in the use of data analytics and technology by audit firms seen as a distinguishing factor in selecting an auditor.
Considerations/ recommendations	Use of data analytics raised as a practice issue in New Zealand, but raised as a practice and standards issue in Australia. Internal audit may have been unique to Australia given auditing standards restriction on use of internal audit. Observations on group audit and advantages of group auditor visiting overseas locations and providing insights to audit committee were occasionally raised in New Zealand.

Assessing the quality of the audit

NZ Findings	Nearly all AC-Chairs stated that the audit committee undertook such assessments. These were typically post-audit debrief sessions: one with the auditor and another with the management team. The assessment ranged from a general discussion to some indicating that questionnaires (of management team exposed to audit, and sometimes auditors) were used. Most AC-Chairs pointed out that the assessment of audit quality is a continuous process throughout the audit. The alignment between the auditor’s and the audit committee’s assessment of risk, the concept of “no surprises”, audit timeliness and the quality of conversations were the main components of this assessment.
Australia Findings	The processes for assessing audit quality ranged from a very formal and structured one to a less structured approach. The very formal and structured approaches included distributing a questionnaire to (or surveys initiated by) auditors and management and explicit consideration of this feedback at an audit committee meeting, under a specific audit committee agenda item. In some cases there was a survey distributed to each member of the audit committee (or entire Board of Directors) by management for compilation and consideration by the audit committee. Audit quality assessment processes are evolving. Those running a fairly informal process of assessment of the quality of the auditor identified a likelihood of the process becoming more formal, either through perceived benefits of a more structured approach or possible imposition of future requirements.

Financial statement audit quality (continued)

Assessing the quality of the audit (continued)

UK Findings	AC-Chairs tend to assess quality before, during, and after the audit. This assessment is made up of both formal and informal interactions alongside documentation and reporting. Surveys – of the firm’s senior leadership, Audit Committee, and the accounts function – are occasionally used by AC-Chairs to gauge audit quality alongside audit reports – although the former were often felt to be too long and acted as more of a ‘tick box’ exercise rather than an activity of any added value.
Considerations/ recommendations	Similar approaches were used across the three jurisdictions. Some thought should be given to suggesting to the IOD that they (possibly jointly) produce an information bulletin on assessing audit quality. There are publications relating to this issue that can be used as a starting point, such as the joint publication by the AICD and AUASB 2022 “Periodic Comprehensive Review of the External Auditor” Available at: https://www.aicd.com.au/content/dam/aicd/pdf/news-media/research/2022/periodic-comprehensive-review-external-auditor-web.pdf .

Selecting the audit firm

Selecting the audit firm

NZ Findings	Just over one-third of AC-Chairs stated they had been through recent audit tenders.
Australia Findings	Very few AC-Chairs had recently undertaken a tender process.
UK Findings	AC-Chairs who had recently conducted an audit tender were sought out to inform mandatory audit firm rotation policy.
Considerations/ recommendations	None.

Factors considered in appointing an audit firm

NZ Findings	Three quarters of the AC-Chairs considered that the attributes of the potential audit partner (and the related team) were the major factor in audit firm choice. Both relevant industry expertise and the personal qualities were commonly referred to. Other factors commonly mentioned included the brand name and resources available (including geographical reach), technology and innovation, and price (or value for money) in the form of a reasonable fee.
Australia Findings	The most frequent factors were the reputation of the audit firm, the qualities of the lead engagement partner, the audit team as a whole, and the overall quality of the audit.
UK Findings	Key factors when selecting an auditor included the expertise, consistency, and professionalism of the audit team. Alongside these factors, AC-Chairs commented that auditors should also have a broad understanding of the business, along with good chemistry and communication across their team.
Considerations/ recommendations	Consistency across the three jurisdictions on technical and personal qualities of audit team and audit partner.

Selecting the audit firm

Audit rotation, and disclosure of audit tenure

NZ Findings	<p>While discussing tenure disclosure, many AC-Chairs expressed the sentiments that they were comfortable with the 5-year audit partner rotation. However, they were strongly of the view that the decision to change audit firm was a board decision and should not be mandatory.</p> <p>The disclosure of audit tenure was not broadly opposed, rather than being strongly supported. There was slightly more opposing the disclosure of audit firm tenure compared with the disclosure of audit partner tenure, and this appeared to be related to those arguing against the possibly imposition of audit firm tenure. The preferred location for this disclosure was in the governance section of the annual report.</p>
Australia Findings	<p>The vast majority of interviewees responded positively to disclosing the tenure of the audit firm, with only a few disagreeing. However, the sentiment was more that the disclosure would generally not do any harm rather than providing specific benefits. Almost all suggested that this information be provided by the company with the most common suggestion being in the notes to the financials (e.g. Auditor Remuneration Note). The next most common suggestion was that it be placed in the corporate governance statement.</p>
UK Findings	<p>Not considered.</p>
Considerations/ recommendations	<p>Many AC-Chairs in New Zealand expressed the view that audit firm rotation should not be mandatory, and that audit committees should be trusted to manage appropriate rotation, rather than required. Differences with Australia may have been due to differences in the timing and sequence of when issues were raised by interviewees.</p> <p>Disclosure of tenure preferred to requiring firm rotation. If disclosure required the preferred location was in the governance section of the annual report, where the context of tenure could be discussed.</p>

Engagement with the auditors outside formal audit committee meetings

Engagement with the auditors outside formal audit committee meetings

NZ Findings	<p>Nearly all AC-Chairs mentioned the importance of pre-audit committee meetings between the chair and the auditor at the time when the auditor is presenting to the audit committee. This was primarily around the presentation of the audit plan, and the discussion of preliminary findings from the half-year and full-year audits.</p> <p>Other meetings with the auditor were common, with the frequency varying considerably, depending on the desire of the AC-Chair to maintain clear lines of communication, or specific issues arising related to the audit (such as changes in circumstances of the entity, or specific accounting or audit issues). The importance of maintaining independence while building these informal lines of communication was commonly emphasised.</p>
Australia Findings	<p>Almost all AC-Chairs referred to a pre-meeting with the auditor before every audit committee meeting. These meetings were scheduled in the diary usually for the week before audit committee meetings, after the audit committee papers are out. Outside the pre-meetings the ability of either the AC-Chair or the audit partner to contact the other party at any time was emphasised.</p>
UK Findings	<p>Many AC-Chairs scheduled regular (4–8 weeks) informal phone and video calls to check on the progress and to get an early read on any concerns, with the frequency of both formal and informal meetings increasing as the audit evolved. Overall, AC-Chairs expected communication to be ongoing across the audit cycle, with timely and clear communication of issues seen as a key indicator of audit quality.</p>

Engagement with the auditors outside formal audit committee meetings (continued)

Engagement with the auditors outside formal audit committee meetings (continued)	
Considerations/ recommendations	<p>No observed variations across jurisdictions. Nearly all AC-Chairs meet audit partner before formal audit committee meetings, where the audit partner has an item on the agenda, usually at planning stage and presenting results.</p> <p>Some audit committee members schedule other ad hoc/regular catchups, emphasising the importance of regular communications. No surprises from the audit was a common theme.</p>

Assurance over climate-related information

General	
NZ Findings	There was a wide disparity in the views of AC-Chairs, mainly related to their levels of current preparedness of climate statements and greenhouse gas emissions disclosures.
Australia Findings	<p>Not all discussions on assurance of sustainability and other reporting occur in the audit committee.</p> <p>Three major (not unrelated) factors identified as being associated with the likelihood of the audit committee being the primary subcommittee for discussion of sustainability related issue were (1) the size and nature of the entity, (2) other sub-committee structures and (3) the extent to which the entity embraces integrated reporting.</p>
UK Findings	Not considered.
Considerations/ recommendations	<p>Alignment with international and Australian reporting standards for climate-related information was a major concern.</p> <p>There is an urgent need for the XRB to communicate with AC-Chairs and other directors on the importance of aligning with international and Australian standards and the process they are adopting.</p> <p>As with the assurance and accounting framework, the XRB will need to update their strategy with regard to climate change reporting and extended external reporting.</p>

Obtaining outside assistance	
NZ Findings	Nearly all AC-Chairs had entities that were using, or expected to use, outside consultants to prepare their climate statements.
Australia Findings	Not covered.
UK Findings	Not considered.
Considerations/ recommendations	None.

Assurance over climate-related information (continued)

Assurance of GHG emissions disclosures

NZ Findings	A significant majority of the AC-Chairs are already using or are expecting to use their financial statement auditor to also assure these disclosures. The main reason for this is that the disclosures are becoming more mainstream and are being integrated into mainstream (annual) reports, creating synergistic benefits from both the perspective of the assurance provider and the reporting entity.
Australia Findings	Many AC-Chairs saw benefits of the incumbent financial statement auditor also providing this assurance (because of knowledge of business, systems and processes) but some AC-Chairs still saw roles for other assurance providers.
UK Findings	Not considered.
Considerations/ recommendations	Consensus between Australia and New Zealand of using financial statement auditor to assure GHG emissions disclosures because they are becoming more integrated into mainstream (annual) reports, creating synergistic benefits from both the perspective of the assurance provider and the reporting entity.

Assurance over climate statement

NZ Findings	Whilst no reporting entities were currently obtaining and publishing assurance over the climate statement, many were currently working through this decision. Some expected that the published climate statement information would be externally assured while some anticipated the assurance may be only for internal purposes, to give the Boards confidence in the information that was being released to the market.
Australia Findings	Not separately explored outside GHG emissions disclosures.
UK Findings	Not considered.
Considerations/ recommendations	None.

Concerns

NZ Findings	The depth of climate-related expertise that currently exists in New Zealand.
Australia Findings	Some concerns were expressed as to whether current assurance processes will be appropriate. Will they cover the easy to assure items, (scoping out areas difficult to assure), and will they be sufficiently risk-based?
UK Findings	Not considered.
Considerations/ recommendations	Differences in concerns appeared to be related to stages of process. In Australia the main concern is to get the reporting and assurance processes signed off, while in New Zealand it was around depth of assurance expertise.



Level 6, 154 Featherston Street
PO Box 11250
Manners Street
Wellington 6142
New Zealand

www.xrb.govt.nz