

Tuesday, 4 June 2024

Marje Russ
Chair, New Zealand Auditing and Assurance Standards Board
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By email: assurance@xrb.govt.nz

Dear Marje

Consultation Document: Public Interest Entity Amendments

As the representatives of over 300,000 professional accountants globally, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide a submission on the XRB's Consultation Document, Public Interest Entity Amendments (the CD). We make this submission on behalf of our members and in the public interest.

There is support for the same definition of a public interest entity (PIE) being used for the auditing and assurance standards and the professional and ethical standards. However, there is little support for extending the engagement quality review (EQR) requirements to PIEs, and mixed views on extending the requirement to report key audit matters (KAM) to PIEs. The difficulty in reconciling such views may point to the need to revise the New Zealand definition of a PIE to better reflect an appropriate balance of entities subject to the differential requirements in the auditing and assurance standards and PES 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. This is on the basis that the extant definition of a PIE was designed solely within the context of the independence requirements of PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.

Additionally, as acknowledged in the CD; under a risk-based audit approach it is unclear whether extending the differential requirements to all PIEs is necessary or if it would positively impact audit quality enough to justify the cost. There are already multiple sub-levels of differential requirements; for instance, the differential requirement in ISA (NZ) 720 (Revised) *The Auditor's Responsibility Relating to Other Information* has not been extended to apply to PIEs. Therefore, we caution against a blanket extension of all other differential requirements to all PIEs.

Our detailed responses to the specific questions raised in the CD are provided in the **Attachment** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Zowie Pateman (CA ANZ) at zowie.pateman@charteredaccountantsanz.com or Tiffany Tan (CPA Australia) at tiffany.tan@cpaaustralia.com.au

Sincerely,

Simon Grant FCA

Group Executive – Advocacy and International
Chartered Accountants Australia and
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Ram Subramanian CPA

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Attachment

Responses to consultation questions

1. Do you agree that the same definition of public interest entity should be used for the auditing and assurance standards and the professional and ethical standards? If not, please explain why not?

We support the same definition of a PIE being used for the auditing and assurance standards and the professional and ethical standards. Alignment of these important terms and definitions should assist with consistent application.

2. For each of the following differential requirements, do you agree with the proposal to extend the application to public interest entities? If not, please explain why not and why in your view it is not in the public interest to do so.

a) Mandatory engagement quality review

Overall, we recognise the importance of considering extending the engagements that are required to be subject to EQR to PIEs. However, we do not support extending the engagement quality review (EQR) requirements to public interest entities (PIEs) as it would also include public benefit entities (PBEs) as currently defined.

One of the main reasons the IAASB decided not to expand the differential requirements for EQRs beyond listed entities in previous public consultations, deliberations, and discussions, was due to the unintended consequences of the requirements applying to smaller entities that could be scoped into the definition of a PIE and for which it may be impracticable or overly burdensome to apply the requirements in such cases.

When the approach to defining a PIE was changed, the definition of a PIE remained unchanged as it was consistent with the new approach. As a result, extending the EQR requirement to more entities would still present practical difficulties for small and medium practices (SMPs). For example, it reduces the number of auditor rotation options available within a firm.

We note that the EQR requirement already applies to a broader set of entities than listed entities in New Zealand, being financial market conduct reporting entities considered to have a higher level of public accountability (FMCREHLPA). There is a distinction between the level of protection needed for FMCREHLPA and PBEs. Quite often PBEs – public sector entities and not-for-profit entities (i.e., charities) – are PIEs by virtue of only being “large” (as defined), not because they have public accountability, which is the sole criteria for for-profit entities to be a PIE. They are not necessarily more complex or higher risk. In addition, it may be that many “large” charities and public sector entities are actually smaller than for-profit entities that have public accountability.

We understand the Office of the Auditor-General (OAG) has its own policy around which public sector entities must be subject to EQR and that this is currently working well.

We also understand that very few charities are currently required by firms' policies and procedures to have an EQR under the risk-based approach in paragraph 34(f)(iii) of PES 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

b) Required communications with those charged with governance about the firm's system of quality management

In our view, the two differential requirements in PES 3 should apply to the same group of entities to avoid creating unnecessary complexity.

c) Communications about auditor independence

We support extending the requirement for communication with TCWG about auditor independence to PIEs. It is logical for all differential requirements relating to auditor independence to apply to the same group of entities.

d) Communicating key audit matters in the auditor's report

Overall, we recognise research shows important benefits of KAMs, including that they increase transparency of the auditors' work. However, we received mixed views on extending the requirement to report KAMs to PIEs (as currently defined).

We understand that voluntary reporting of KAM amongst PBEs is not very prevalent in practice. This may be due to an actual or perceived lack of demand from intended users. We would support the extension of KAMs to PIEs if there was clear evidence that there would be benefits for users, and that these outweighed the increased costs that would come from a requirement to report KAMs.

e) Name of the engagement partner

We support extending the requirement for the name of the engagement partner to be included in the auditor's report to PIEs. The benefit of additional transparency to intended users clearly exceeds the negligible cost of requiring it.

3. Do you agree that the benefits of the proposals outweigh the expected costs? If not, why not?

We agree that the benefits outweigh the expected costs for some of the proposals. However, for EQR and KAMs it is less clear as mentioned above.

The definition of a PIE was developed for the purpose of the independence requirements in PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* and has not previously been applied in the context of the auditing and assurance standards or PES 3. On this basis it is not clear that a blanket

extension of the differential requirements to all PIEs (as currently defined) is needed, nor whether this would have a positive impact on audit quality that would exceed the cost of requiring it. In particular, it would exacerbate the extant concerns in the charitable sector around the cost of audit.

4. Are there any other significant public interest matters that you wish to raise?

We acknowledge that if the IAASB proceeds with the proposals in its ED PIE – Track 2 the XRB will have to adopt the amendments. In which case the XRB may need to reconsider the New Zealand definition of a PIE to better reflect an appropriate balance of entities subject to the differential requirements in the auditing and assurance standards and professional and ethical standards.

To address the concerns about the extension of EQR and KAM requirements to PBEs, the inclusion of PBEs in the definition of a PIE could be reassessed. One potential solution could be decoupling the definition of a PIE from the Tier 1 financial reporting requirements and linking it to the definition of public accountability or FMCREHLPA instead. This is, of course, so long as it is consistent with the new approach to defining a PIE.