KPMG

External Reporting Board
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20 May 2024

To Whom it may concern

Public Interest Entity Amendments - Narrow scope amendments to auditing and assurance standards

KPMG welcomes the opportunity to provide comments on the External Reporting Board ('XRB') *Public Interest Entity Amendments – Narrow Scope amendments to auditing and assurance standards* Consultation document, March 2024 (the 'consultation').

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

Question 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 agree there is merit to a consistent definition of public interest entity across the auditing and assurance standards and the professional and ethical standards for the objective of understandability and simplicity.

However, we have concern that in doing so, that all entities that report using tier 1 financial reporting requirements will be subject to the expanded independence and audit quality requirements unnecessarily, as we do not consider that the current public interest entity ('PIE') definition included in the Code of Ethics capturing certain public sector entity or not-for-profit entities is an accurate reflection of the risk of all these entities.

We refer to our previous letter dated 15 August 2022 in response to your invitation to comment – NZAuASB 2022-2 Proposed revisions to the definitions of Listed Entity and Public Interest Entity in PES-1 for further comment on this.

Question 2. For each of the existing 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.

Our firm has applied a risk-based approach in designing, implementing and operating the engagement quality review component of our system of internal control and as a result, already mandate an engagement quality review wider than is required under applicable law, regulation or professional standards. However, consistent with our response to question 1 above, that does not extend to all Tier 1 financial reporting entities as we do not consider there to be quality risks with all these entities. As such, we do not agree with the proposal to extend the application of mandatory engagement quality reviews to all entities captured by the proposed definition of public interest entity. This will raise the costs of the new PIE audits, which we anticipate will be passed onto clients with very little benefit in return (see discussion under question 3 below). We recommend the XRB to consult directly with the affected entities for their view on whether they agree this is in the public interest.

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

We believe stakeholder confidence in New Zealand businesses is essential to the prosperity of all New Zealanders and that high quality, independent audit is the cornerstone of that confidence. To increase confidence of the public in our audits, our firm already includes our System of Quality Management statement of effectiveness within our annual Audit Quality Transparency Report, which extends beyond the current requirements of Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. We agree that requiring communications with those charged with governance about the firm's system of quality management is in the public interest.

c) **Communications about auditor independence.**

As mentioned above, an independent audit is critical. We agree that requiring communications about independence is in the public interest.

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

Whilst we do agree that key audit matters may be in the public interest by providing better transparency about the audit, providing additional information to understand the professional judgement of the auditor, helping the public in understanding the areas of crucial management judgement and encouraging the public to further engage with those charged with governance and management on matters of most significance; we draw attention to our comments to question 1. Given we believe the current proposed definition of a PIE does not necessarily reflect the risk of such entities, we do not consider that there will necessarily be more complex areas of the audit that require a higher level of professional judgement or areas of crucial management judgement that would need to be addressed through communication of key audit matters in the auditor's report.

Additionally, we consider that the requirement of PBE FRS 48 *Service Performance Reporting* for public benefit entities to prepare a Statement of Service Performance has provided a vast improvement on information disclosed for the public interest, particularly in relation to whether an entity has used funds for the purpose intended, what it has achieved with the resources available to it, and whether it could have done more with those resources.

Therefore, we consider the auditor should be able to continue to voluntarily report key audit matters when considered appropriate but that this differential requirement should not be mandated. We also note that there is a cost associated to reporting key audit matters, particularly in the initial year and we comment on cost versus benefit further below. We recommend the XRB to consult directly with the affected entities for their view on whether they agree this is in the public interest.

e) **Name of the engagement partner.**

We do not believe there is any benefit to the public interest by disclosing the name of the engagement partner. Our audit partners are not signing the audit reports based on their work alone. The firm signature reflects the support provided by the firm to enable that partner to opine. However, should the definition of public interest entity be revised, we agree with the proposal to extend the name of the engagement partner to all public interest entity audit reports to promote consistency.

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

In respect of the extended differential requirements we agreed with above, being required communications with those charged with governance about the firm's system of quality management and communications about auditor independence. We do not consider these to have significant incremental cost and as such, that the benefits of those proposals outweigh the costs.

In respect of the name of the audit partner, whilst we do not agree this should be included, we do admit there is little cost associated with this change.

As we have outlined above, we believe mandatory engagement quality review and communicating key audit matters in the auditor's report are of limited benefit. Additionally, these are the areas that would have the more significant associated costs.

We are concerned that additional compliance costs will result in higher audit fees having to be charged by the auditor to ensure the client generates a sufficient return for the auditor and that this would reduce the funds that these entities have that can be spent on activities in the public interest. We also believe these additional costs are also of relevance in the current climate where public benefit entities are commonly experiencing declining revenues from their fundraising and donation activities combined or stretched government funding, alongside the added cost of having to comply (including establishing new or evolving components of internal control) with the new requirements of PBE FRS 48 *Service Performance Reporting.*

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

We have no additional comments to make on the Consultation.

Yours sincerely

Darby Healey

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Partner