

10 August 2015

NZ Auditing and Assurance Standards Board (NZAuASB)
External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142

By email: submissions@xrb.govt.nz

Dear NZAuASB

Exposure Draft NZAuASB 2015-1, and reporting on Key Audit Matters

Thank you for the opportunity to provide comment about proposed changes to auditing standards as set out in the [Exposure Draft NZAuASB 2015-1](#) (ED).

The standards include a new requirement for auditors to include a section in the audit report explaining key audit matters (KAM) which will introduce tailored and unique commentary about the audit of the company into the audit report.

Reporting KAM is a significant change from existing practice and is potentially a paradigm shift with implications that are not yet fully understood, including potentially additional costs and risks to audit quality.

By way of general comment, the IoD recognises the importance of the external audit in providing independent assurance, which aids accountability and contributes to good corporate governance. We support improving auditor reporting to be more transparent and meaningful as intended by the introduction of KAM reporting, however it is important that we get this right for New Zealand business.

We support a cautious and phased approach to the introduction of such a significant change in auditor reporting, including deferring consideration of wider application of KAM reporting until after the post-implementation review.

We also comment on proposals in the ED regarding auditor disclosure about independence and requirements to include the engagement partner's name on audit reports for all entities.

About the Institute of Directors

The IoD is a non-partisan voluntary membership organisation committed to raising governance standards in New Zealand. We represent a diverse membership of about 7,000 members drawn from NZX-listed corporations, unlisted companies, private companies, small to medium enterprises, public sector organisations, not-for-profits and charities. Our chartered membership pathway aims to raise the bar for director professionalism in New Zealand, including through continuing professional development to support good corporate governance.

Comments on proposed changes to ISAs NZ

The ED proposes changes to New Zealand auditing standards, ISAs (NZ), following the issue of a new Auditor Reporting package by the International Auditing and Assurance Standards Board (IAASB) in January 2015. The new auditing standards are to be effective for audits of financial statements for periods ending on or after 15 December 2016.

Key audit matters (KAM)

A new International Auditing Standard (ISA 701) requires reporting of KAM for audits of listed entities, it also allows for voluntary application to other audits. The standard requires auditors to include company specific text about KAM in the audit report with explanations about the matters and meaningful summaries of procedures that were taken in the audit to address the matters.

The NZAuASB proposes (ED paragraphs 37 to 43) extending the scope of mandatory reporting of KAM in New Zealand from listed issuers to include all FMC reporting entities¹ considered to have a higher level of public accountability (e.g. registered banks, credit unions, licensed management investment scheme managers) – to be effective for years ending on or after 31 December 2018.

The implications of the changes may not yet be fully understood. We agree with the NZAuASB that some of these risks may be greater in New Zealand, given the small size of some FMC reporting entities.

It follows that a cautious and phased approach to implementing KAM reporting is important. We support the proposed December 2018 application date for FMC reporting entities as this will allow these entities and their auditors to better understand and prepare for KAM reporting. This is particularly important for smaller FMC entities and their auditors, where the change to KAM reporting may be more challenging.

We support the NZAuASB approach to considering any wider application after the post-implementation review, and we look forward to contributing to the review.

Auditor disclosure about independence

The NZAuASB proposes (ED paragraphs 24 to 33) amending NZ standards to maintain existing practice regarding the disclosure of auditor independence in New Zealand for all audits - rather than requiring this for audits of listed entities only as per the international standards.

Transparency of auditor independence is important, particularly in a small jurisdiction like New Zealand, and we support maintaining the long-established best practice (of the auditor's report including a statement about relationships and interests) for all audits in New Zealand.

Engagement partner's name

The NZAuASB proposes (ED paragraphs 34 to 36) amending international requirements in New Zealand to include the engagement partner's name in the auditor's report for audits of all entities in New Zealand - rather than requiring this for audits of listed entities only as per the international standards.

Disclosing the engagement partner's name promotes transparency and may help improve audit quality. We see no reason not to extend this requirement to all audits.

¹ The meaning of an FMC reporting entity is broader than the definition of an 'issuer' under previous legislation.

Conclusion

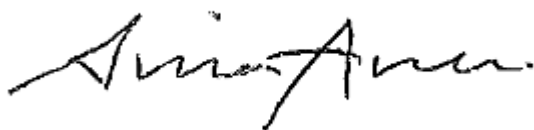
Auditors have an important role to play in providing independent assurance which contributes to good corporate governance. The IoD supports the XRB ensuring auditing standards are fit for purpose in New Zealand, including reflecting best practice regarding disclosure of auditor independence, and greater transparency through including the engagement partner's name on the audit report.

The introduction of KAM reporting however is a significant change with unknown impacts. While the IoD is generally supportive of the changes, the success of the overall objectives of these changes remains to be seen including whether using a vehicle such as KAMs is the most effective way to evince what auditors have done and how they best report.

While generally supportive the IoD also takes the opportunity to sound a note of caution that the line between the discharge of director duties and those of auditors is not blurred by requiring auditors to comment on matters that are the true provenance of directors.

The IoD appreciates the opportunity to make a submission on behalf of its members and we would be happy to discuss this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon Arcus', written in a cursive style.

Simon Arcus
Chief Executive
Institute of Directors in New Zealand