

14 May 2016

New Zealand Shareholders Association Submission on Enhancing Audit Quality in the Public Interest

Relationship of Submitter

The New Zealand Shareholders Association (NZSA) is the only independent national group that represents the interests of retail investors in the equity markets.

One of our major concerns is the need to engender confidence in the regulation and operation of the New Zealand capital markets. We therefore, take a close interest in the “public good” aspect of legislative changes or regulation relating to existing legislation as part of our core function. This includes standards proposed or subject to amendment by independent groups which have an impact on investor interests. We consider that the availability of quality audit services is a key component in this mix.

This submission is written to present the perspective of the prudent, but non expert retail investor. To a degree, our opinions will be slanted towards the listed equity and debt market areas. While these are a narrow part of the range of companies requiring audit services, they do frequently involve larger sums of money and are more complex than many smaller organisations. They are also subject to greater regulation and oversight than non public issuer companies. This means the need for high quality advice is arguably more critical.

Overview

The NZSA have read the documents entitled ‘IAASB Invitation to comment –Enhancing Audit Quality overview and invitation to comment’ .

In general the NZSA felt many of the issues discussed in these documents were aimed too much at practitioners delivering audits, rather than constituents who use audited accounts. As the NZSA represents those who use audited accounts, our comments are therefore more limited in scope.

In our view, the user of accounts is usually less concerned with the process used to achieve an outcome, than the outcome itself. The important issue for a user is that audited accounts do show a true and fair view of an organisation's operations, and that any areas of concern to the auditor, are meaningfully discussed in the new form Audit report.

In general, the NZSA felt the way a number of issues were discussed in these documents was too vague, and any outcomes too difficult to quantify.

The concept of professional skepticism, for example, is meaningless to the user of a set of accounts unless some practical method of measurement can be introduced and the results of these measurements are available to end users.

For example, metrics around the length of time a firm has served as a company's auditor; or the number of years the audit partner has been in charge of an audit may give some useful information to the user of accounts, rather than empty rhetoric around the desirability of professional skepticism.

Responses to Questions

We will now go through the questions in detail, but have limited our comments to those particular matters where we believe we can make a positive contribution. We have responded in the same order as the discussion document.

General Question

G1 & G2. The move to the new Audit Report is the most significant improvement in the Audit process for users of accounts. However the new Audit report does need to be meaningful. The inclusion of a paragraph on materiality (both for the Holding company and any subsidiary companies) as it has been applied by the Auditor would be very useful for users of accounts.

G3. No comment

Professional Skepticism

PS1 to PS5. The NZSA recognises the need and desire for Professional Skepticism; but the user of a set of accounts will be more interested in what metrics can be produced to demonstrate Professional Skepticism has been applied by the Auditor in reviewing an organisation's operation/accounts.

Quality control

QC1. The NZSA fully supports the concept of Quality control and the QMA. However, once again, a user of a set of accounts will be more interested in what metrics can be produced to demonstrate QC has been applied, rather than any rhetoric describing it.

QC2, QC3 & QC4. The NZSA was, frankly, worried that this discussion on the engagement partner's responsibility suggested a lack of clarity about the role of engagement partner and others performing an audit. We found this surprising considering that it is a basic part of any effective audit framework. From a user's perspective, it is expected that the engagement partner assumes full responsibility for commenting upon every aspect of an organisation's

operations and accounts, including whether that organisation has effective internal processes and, again, whether the accounts give a true and fair view.

QC5. Good governance is essential to robust business outcomes, but again the user of a set of accounts would be interested in a metric measuring governance. This could take the form of a grading based on an assessment of compliance with generally accepted best practise, or where compliance is not forthcoming, the adequacy of explanation as to why this is the case.

QC 6, QC7, QC8 & QC9. No comment

QC10. The NZSA wholeheartedly supports the current movement toward increased transparency of reporting and, from a user's perspective, believes the new Audit Report represents the single biggest improvement in the Audit industry in the last 40 years. Transparency can only be good for the users of financial information.

QCH 11 to 14. No comment

Group Audits

As users of account we support any measures which will improve the quality and reliability of Group Audits. We do think greater transparency around levels of materiality involved in an audit, at the Group and subsidiary level, would be of interest to users and provide further evidence/information supporting the degree of reliance a user could place on accounts.

We have no specific comment of **Qs GA 2 to 9**; other than users expect to be able to rely on audited accounts regardless of how complex an audit is to organise,

Summary

In our view, the discussion paper has to some extent failed to keep the underlying purpose of an audit at the forefront of its recommendations. We consider this to be "giving comfort to investors that companies have been independently verified to be complying with their financial and governance obligations".

We support entirely the intention to lift audit standards but remain concerned that without the use of clear metrics to measure outcomes, changes will be less effective than both the audit profession and users of audited accounts would like to see.

Submission prepared by:

***John Hawkins, NZSA Chairman
+649 21640588***

Andrew Reding, NZSA Director

Martin Watson, NZSA Director