

Our year in audit quality

Transparency Report 2021

PwC New Zealand | Audit





Contents

Our year in audit quality

- 03 Welcome to our 2021 Transparency Report
- 05 What does the Audit Quality Balanced Scorecard tell us?
- 06 Audit Quality Balanced Scorecard 2021
- 10 External inspections
- 11 Independent Audit Advisory Board
 - Observations and recommendations
 - Independent Audit Advisory Board recommendations and PwC’s response
 - Future agenda
- 17 The rise of non-financial reporting
- 19 The lasting impact of COVID-19 on auditing
- 21 Helping build the understanding of audit
- 24 Contributing to the wider profession

APPENDIX:

- 26 Glossary of terms

This year our Audit Transparency Report is split into two sections. In this first section we outline our year in audit quality including our Audit Quality Balanced Scorecard results, observations and recommendations from our Independent Audit Advisory Board and an overview of contributions we have made to market discussion around audit quality.

The second section *Delivering on our commitment to audit quality* outlines our policies, systems and processes for ensuring quality and independence as well as how we monitor our work and ensure our people have the support they need to excel in their work.







Welcome to our 2021 Transparency Report

Our commitment to greater transparency

At PwC, we understand the importance of transparency and quality in building trust. We're a network of firms in 156 countries with more than 295,000 people who are committed to delivering quality in assurance, advisory and tax services. Building trust is central to the firm's purpose – it is at the core of what we do and how we operate.

In 2020 we started our work to provide greater transparency about our audit business. We were the first firm in New Zealand to release a Transparency Report to give our key stakeholders, and the broader community, information on the quality management systems that underpin our audit services and insight into how we are delivering on our commitment to audit quality.

Trust in audits is fundamental to investors and stakeholders. And, this comes from performing quality audits consistently. We are committed to a strong culture of quality and excellence. It is central to our purpose. As the CEO of PwC New Zealand, I am focused on audit quality and recognise our public interest responsibilities. With my background in mergers and acquisitions, I know how important a well-functioning capital market is for this country. I am pleased to share with you our PwC New Zealand Audit Transparency Report for the year ended 30 June 2021. We have made progress in audit quality over the past year, however we recognise there is always more to be done to maintain trust and confidence in audit.



MARK AVERILL
CEO AND
SENIOR PARTNER

Our 2021 Audit Transparency Report

While PwC is a multidisciplinary firm, this report is focused on our audit practice and related services. The audit profession continues to be under significant public scrutiny and challenge. We understand the concerns and we support, and are committed, to changes that will improve audit quality.

This year our report includes:

- Our Audit Quality Balanced Scorecard for the year to 30 June 2021;
- The observations and recommendations made by the Audit Advisory Board, which was established in 2020 to advise the firm on our audit quality management systems and processes, learning and development programme and how the firm is responding to structural changes in the profession;
- Insight into the rise of non-financial and environmental, social and governance (ESG) reporting; and
- Commentary on the lasting effect of COVID-19 on audits, including the impact of closed borders and the sustainability of the profession.

Information on how our firm is governed, the culture and values that guide us as well as details on the quality management system that our audit practice operates can be found [here](#).



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Our new strategy builds on our ongoing commitment to quality.

The New Equation

In September 2021, we unveiled The New Equation, PwC’s new global strategy which responds to fundamental changes in the world, such as technological disruption, climate change and the continuing effects of the COVID-19 pandemic. The New Equation focuses on two interconnected needs that clients face in the coming years – their need to build trust and their need to deliver sustained outcomes. As part of this strategy, PwC New Zealand announced a range of commitments, including:

- Creating over 500 new roles in Aotearoa New Zealand over the next five years.
- Continuing to invest in areas that are critical to building New Zealand’s future including expanding specialist capability in strategically important areas such as ESG, digital transformation and technology alliances, Māori business, infrastructure and health outcomes.
- Increasing ethnic identification at all levels across PwC particularly for Māori and Pacific peoples and enhancing the cultural confidence of our firm.

- Upskilling our team of more than 1,700 to give them the knowledge, skills, and tools they need to adapt to the digital future. We have committed over \$8 million across three years to achieve this.

Our new strategy builds on our ongoing commitment to quality. This includes further focus on the following key audit areas:

- Continuing to strengthen our quality culture to support our partners and teams to display behaviours consistent with driving audit quality.
- Upskilling our audit staff and partners on ESG and further developing their digital skills.
- Continuing to work with our stakeholders to have real time engagement around the changes we’re seeing in the world and their impact on audit quality and compliance, like technology disruption, climate change and changes that have been magnified and accelerated by the COVID-19 pandemic.

For more information on The New Equation please read [here](#).

Our audit business is fundamental to our strategy and building trust. We continue to invest in continuous improvement in audit quality through new systems and technology, risk processes and learning and development for our people.

We’re proud of the role we’re playing in opening up discussion about audit quality in New Zealand. We welcome the opportunity to keep the conversation going through our Transparency Report, Audit Quality Balanced Scorecard and our other quality initiatives.



Karen Shires

KAREN SHIRES
CHIEF RISK &
REPUTATION OFFICER



Rich Day

RICH DAY
AUDIT LEADER



What does the Audit Quality Balanced Scorecard tell us?

Our latest Audit Quality Balanced Scorecard (for the year ended 30 June 2021) reveals the following insights about audit at PwC New Zealand. These include:

- The results of both our external and internal inspections have improved year-on-year.
- We are developing a strong culture of consultation across the team. The increased complexity of financial reporting, combined with uncertainty created by COVID-19 has seen our Risk & Quality team consulted more frequently on auditing and audit report matters by audit teams.
- Tone at the top remains critical and our partners continue to lead by example with quality core to our culture and purpose.
- We have more work to do to help our people understand the importance audits play in building trust in the capital markets and why what they do matters.
- Like many professions, we have started to see higher attrition in our team. Our experienced auditors are being sought out by corporates in New Zealand who are struggling to recruit finance professionals and we are experiencing a shortage of experienced/skilled auditors in the local market. We look forward to the reopening of our borders to help alleviate this issue.
- Our focus on independence has continued with specific independence training for all partners and staff.
- Over the past year our people have undertaken an increasing amount of online and classroom training. We are preparing our people for upcoming changes in auditing standards and increasing their digital skills so our people can continue to perform quality audits in a new tech-enabled world.
- The above aligns with our commitments in The New Equation strategy launch (see page 04 for more details).





Audit Quality Balanced Scorecard

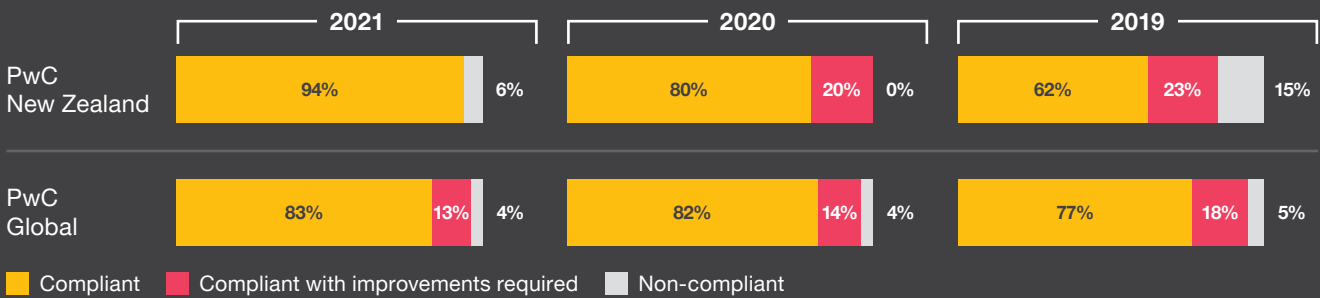
For the year ended 30 June 2021

Our drive for quality

As part of the PwC network, we are subject to globally coordinated quality inspections. The findings are moderated by PwC's Global Assurance Risk & Quality team.

Restatements for public companies identified by PwC inspections due to material error

0 2021 **0** 2020



In line with the International Forum of Independent Audit Regulators (IFIAR), PwC is focused on having zero non-compliant and minimal compliant with improvements required engagements. This data shows an improvement over the last 12 months with a greater percentage of compliant engagements.

Audit files inspected across all reviews (internal and external reviews)¹

47 2021 **37** 2020

Consultations on auditing matters approved by R&Q²

232 2021 **161** 2020

Consultations on audit reporting approved by R&Q³

436 2021 **376** 2020

¹ FMA reviews are only held every second year, therefore there are more files reviewed in the years where an FMA review takes place.

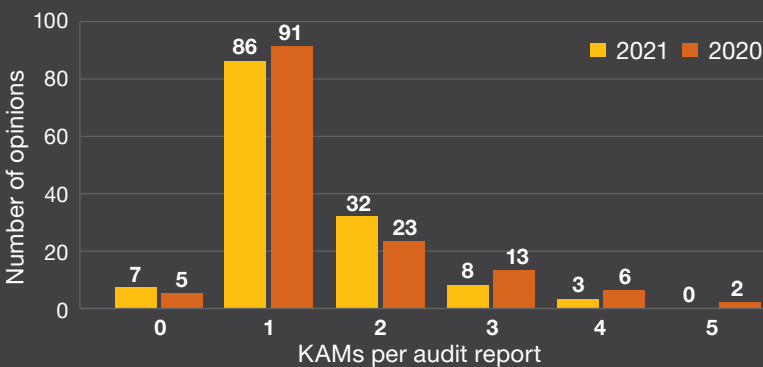
² These numbers refer to auditing matters requiring additional focus and review by our specialist risk and quality team.

³ Risk and quality review of audit reporting including key audit matters, special purpose reports and modified opinions.

The increase in consultations is predominantly due to the continued impacts of COVID-19 and related uncertainties.

Our audit reporting

Number of Key Audit Matters (KAMs) per audit report:



KAMs provide transparency about the matters that, in the auditor's judgement, were of most significance in the audit of the financial statements

Opinions with going concern uncertainty highlighted (PIE entities)

11 2021 **20** 2020

These are audit reports that include material uncertainty with respect to going concern emphasis.

Total number of KAM opinions

136 2021 **140** 2020

Average number of KAMs per audit report

1.4 2021 **1.5** 2020

See Appendix for a glossary of terms.

Information on FMA and OAG inspections can be found on page 10.



Our tone at the top

We regularly survey our people to collect feedback on the behaviours that support audit quality demonstrated by partners and our specialist support teams.

Global people survey results – PwC New Zealand audit practice³

Participation rate⁴

90% 2021

Engagement score⁵

77% 2021

Questions asked in our Global People Survey

The leaders I work with are committed to providing high quality services to external clients.

95% 2021

The leaders I work with encourage one-firm collaborative behaviour to provide quality services to our clients.⁶

82% 2021

My work is meaningful to me.⁷

69% 2021

2021

764¹ Leadership in Quality surveys completed with an average score of **9.1** out of **10**²

2020

242 Leadership in Quality surveys completed with an average score of **8.9** out of **10**

1 This number represents a new feedback mechanism introduced in early 2020 so the comparative is for a part year only. The survey seeks to measure the audit engagement leader and the EQCR's leadership in quality throughout the engagement. A significant increase in the number of surveys completed was expected.
 2 The value of the feedback we gather has been seen through an improvement in the average score – leaders have taken action based on the feedback received.
 3 Due to COVID-19 this global survey was not carried out in 2020. We ran alternative surveys which are referenced in the 2020 Transparency Report.
 4 Participation rate of this level indicates strong employee engagement by our workforce.
 5 The engagement score is an average from a number of specific questions focused on how a person is engaged with/connected to an organisation. The global best in class industry norm is 83%, PwC New Zealand was 80%. The Audit practice was slightly below this. This is an area of focus for our audit practice.
 6 This number indicates that there is a strong understanding of the importance of using specialists and experts across the firm when delivering audits.
 7 We recognise that there is more work to be done to help our team understand the importance of audit, and why what they do matters.

Our audit business

NZX50 audited by PwC New Zealand

34% 2021 **34%** 2020

Ratio of non-audit service fees to audit fees for PIE entities

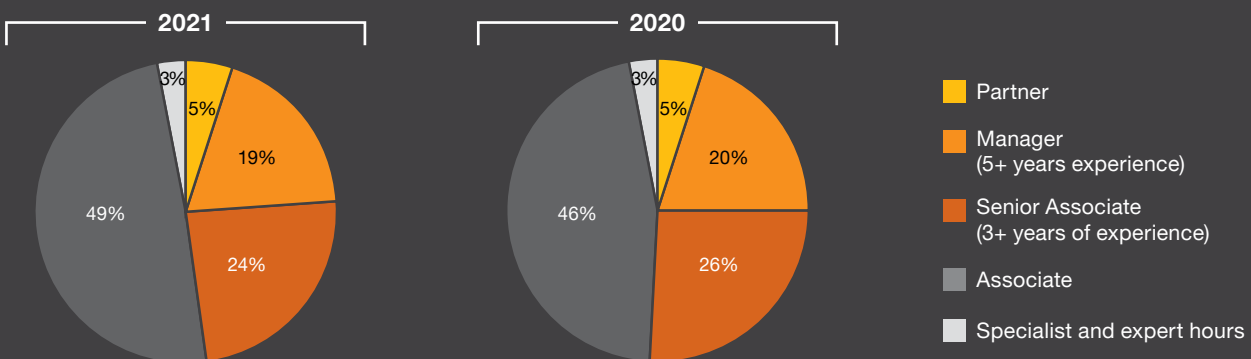
7% 2021 **11%** 2020

Audit revenue as a percentage of PwC New Zealand firm revenue

24% 2021 **27%** 2020

The reducing ratio of non-audit service fees to audit fees is consistent with what we are seeing across the market as audit firms are providing fewer additional services to audit clients given changing stakeholder expectations.

Proportion of total hours spent on audits by role in team



These graphs illustrate the percentage of time spent on our audits by the different roles within the audit team. Consistent with the prior year, a significant portion of total audit hours are invested by senior team members (more than 25% at levels of Manager and above).



Our people

The experience and expertise of our people is critical to delivering quality audits. We are also committed to helping build the next generation of auditors.

24 2021 | **24** 2020

Audit partners' average years of audit experience

66 2021 | **60** 2020

New audit graduates

07 2021 | **07** 2020

Specialist partners supporting audits in the areas of technology, valuation and complex accounting matters

Licensed auditors

21 | **20** 2021 | 2020 **08** | **08** 2021 | 2020

male

female

Qualified to sign audit reports

23 | **22** 2021 | 2020 **09** | **10** 2021 | 2020

male

female

Audit headcount

372 | **369** 2021 | 2020 **362** | **365** 2021 | 2020

actual

budget

Retention rate

75% 2021 **78%** 2020

75% is in line with historical average retention rates. The higher number in 2020 reflects minimal movement in the last quarter due to the initial impact of COVID-19.

Transforming our audits

We are investing in our people to ensure they have the digital skills needed to continue to perform quality audits in a new tech-enabled world.

Number of audit digital accelerators

10 2021 **05** 2020

Number of new audit hours digitised by our accelerators

1045 2021 **1025** 2020

Our digital accelerators help upskill our people on new tools and technologies used in external audits.

The increase in hours is in line with our commitment to reskilling our people.

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We are investing in our people to ensure they have the digital skills needed to continue to perform quality audits in a new tech-enabled world.

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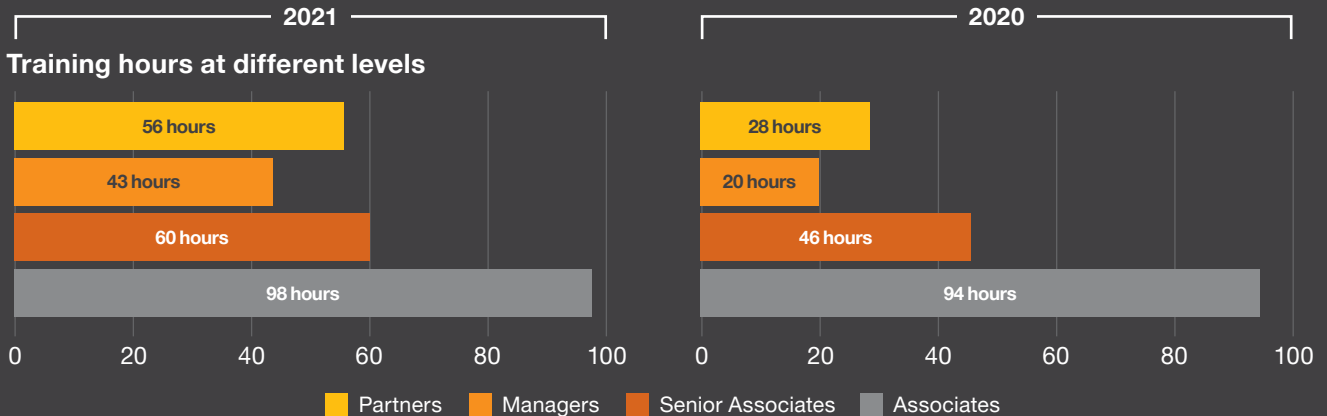
Our investment in training

Auditing and accounting training hours

Minimum number of hours of auditing and accounting training mandated by PwC Global and completed by role annually.

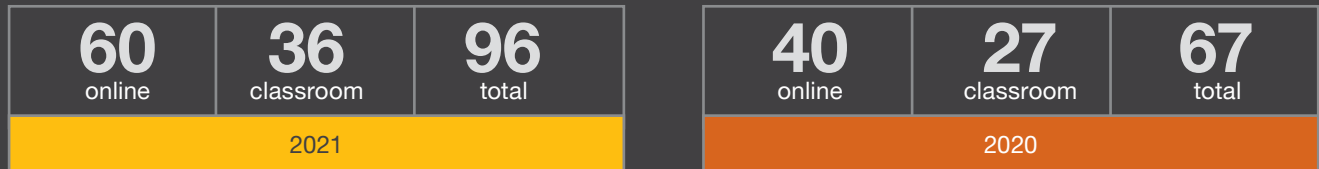
Minimum structured professional training requirement (CPD) for members of CAANZ

20¹
hours per annum



¹ PwC New Zealand audit staff and partners undertake more than the minimum number of structured CPD hours required by members of CAANZ. We have seen an increase in the required training hours from PwC Global due to additional training for auditing impairment, the new auditing standard for accounting estimates, and the upskilling of people to use digital tools.

Average training hours achieved by audit partners and staff (both globally mandated and local New Zealand training)



Independence training

Time spent by every staff member

50mins 2021

Time spent by every partner

50mins 2021

Time spent by every staff member

70mins 2020

Time spent by every partner

100mins 2020

In FY20 additional independence training was delivered at the request of NZICA.

Monthly audit and accounting knowledge

During 2021 we started running separate accounting knowledge quizzes in addition to those focused on audit thereby increasing the number of quizzes individuals need to complete but reducing the number of questions in each quiz.

3,189 2021

Monthly audit and accounting knowledge quizzes completed

7.5 2021

Average number of questions per quiz

1,875 2020

Monthly audit and accounting knowledge quizzes completed

9.3 2020

Average number of questions per quiz



External inspections

PwC New Zealand is subject to regular inspections by regulatory and professional bodies.

FMA regulator inspection

In 2021 the Financial Markets Authority (FMA) inspected seven engagement files and reviewed the quality control systems and processes in place – our system of quality management (SoQM). The findings from the 2021 FMA inspection of PwC and other firms are reported annually and will be included in the FMA's Audit Quality Monitoring Report to be issued in November 2021.

OAG inspections

The firm is also subject to reviews by the Office of the Auditor-General (OAG) for engagements that are completed on its behalf. During the 2020 calendar year two audit partners who are Appointed Auditors were subject to review by the OAG in October and December 2020 covering three audit files. All files were compliant.

Referrals

At any time there may be matters in progress which are dealt with on a confidential basis pending resolution or further investigation. This includes the complaint made by Mr Colin Armer to the FMA in September 2019. The FMA forwarded Mr Armer's concerns regarding Fonterra's audits for 2015 to 2018 (inclusive) to NZICA. This matter continues to be investigated by NZICA.





Independent Audit Advisory Board

In October 2020 we announced the establishment of [an independent Audit Advisory Board](#) to provide guidance and challenge relating to audit quality at PwC New Zealand.

The Board consists of three independent members. Warren Allen (Chair), Alison Posa and Stephen Layburn who advise the firm on matters including PwC's audit quality management systems and processes, learning and development programme and how the firm is responding to structural changes in the profession.

Since inception, the Board has met four times. It has made a range of observations and recommendations about audit quality at PwC New Zealand. These are outlined below including how PwC New Zealand will act on these recommendations.



WARREN ALLEN



ALISON POSA



STEPHEN LAYBURN





Independent Audit Advisory Board observations and recommendations



Based on our work during this period the key elements of our overall conclusion are:

The Advisory Board concludes that the approach adopted by PwC New Zealand supports appropriate emphasis on audit quality:

- Significant improvement has been achieved in key metrics, including external regulatory and peer reviews of audit assignments, that are used to report on audit quality;
- PwC New Zealand's quality management systems are designed to deliver quality audits – these have been the subject of external reviews with significantly improving results. It is encouraging to see that quality management systems are effective in identifying risk areas and mitigating exposures through training, systems and support;
- Appropriate “tone at the top” both at firm and audit practice levels was evident with the key messages embedded in enhancing audit quality and this is evidenced by recent employee survey results;
- PwC New Zealand benefits from an advanced and globally consistent audit methodology that complies with the current set of international auditing standards. Extensive resources are employed in ensuring the proper use in the New Zealand practice;
- The key aspect impacting audit quality is ensuring this global methodology is consistently utilised in accordance with firmwide policies and procedures. PwC New Zealand's work in this area is extensive and appears to the Advisory Board to be delivering results;
- Another key component of audit quality is for the auditor to be, and be seen to be, independent. PwC has policies in place for maintaining independence, and a more extensive monitoring programme. Recent peer reviews indicate improved compliance with independence policies.

The key challenge is aligning the audit practice's staff and partner resource with the objective of enhancing audit quality – the Advisory Board is of the opinion PwC New Zealand has put substantial effort into this key focus area with worthwhile results:

- Several examples of changed behaviour following key training initiatives;
- Increased effort into the recruitment process, in a challenging environment;

- Satisfactory results (considering the challenges placed on the practice by the COVID-19 pandemic) from recent GPS survey;
- Continued development (with the assistance of the Global firm) and deployment of modern technology tools to assist the staff and partner base achieve quality audits;
- Strong retention and engagement outcomes in a difficult labour market;
- Strengthening of the alignment between rewards and key audit quality metrics; and
- Partner and staff wellbeing has been a key focus with demonstrable improvements in the total workload for each member having been achieved together with other personnel support initiatives in a challenging environment.

PwC New Zealand is well aware of the need to transform the audit practice to respond to the ever-increasing changes it is facing. The Advisory Board observes that a number of industry-leading initiatives (in some cases initial efforts around emerging issues) are being planned and executed by the audit practice:

- Developing expertise to respond to the fast-approaching market need for assurance on ESG information;
- Responding to the need to enhance diversity, reflecting the diversity of the client base (including the different cultural requirements of many large and developing business entities – such as iwi businesses and public good entities that have Pacifica and other communities as their focus) and the rapidly-changing shape of the professional workforce – as the audit profession, in keeping with other professions, seeks to become a mirror on society;
- Ensuring the basic understanding of audit theories and processes are not lost as the aim to increase the use of technology and shared service centres in audits is implemented;
- Substantial and continued investment in new technologies that will enhance the quality of audits. Both international and New Zealand based efforts in this area are significant; and
- Responding to increasing and changing demands from the regulatory community, ensuring all public interest entities audited by PwC New Zealand continue to meet the public interest need for quality audits. This is also carried through to all other audits.





Independent Audit Advisory Board recommendations and PwC's response

The Advisory Board, based on its work during this reporting period, has made three recommendations for consideration by PwC New Zealand and one recommendation for which the firm could be a supportive stakeholder. These recommendations are in the form of supportive actions that the Advisory Board sees as being needed in addition to activities already underway within the audit practice. It is our opinion that these actions are necessary to ensure PwC New Zealand continues to have a sustainable audit practice capable of delivering quality audits in the future to respond to multiple stakeholders.

Recommendation 1

Whilst acknowledging all the good work that has been initiated in terms of responding to the difficult market for audit staff, and the current relatively good position in which PwC find themselves, the Advisory Board is concerned this position could rapidly deteriorate – through forces outside PwC's control. Consequently, more planning work is required to be prepared to respond to a sudden reversal of these environmental factors. Separately from the medium/long term outlook addressed by Recommendation 3, it does appear that, in the short term, there is a distinct possibility of a "perfect storm" rapidly causing resourcing constraints.

PwC New Zealand's Response

We acknowledge the concern of the Advisory Board. The current closed borders are proving challenging for the industry, in particular with respect to recruitment of experienced auditors. Several initiatives that are already underway will be accelerated to focus on targeted recruitment and retention of key staff. We will also further the use of our offshore delivery centres through the remote team member model and continue our drive to increase our team's digital upskilling and use of digital tools and technology.

RESPONSIBILITY: RICH DAY (AUDIT LEADER)
DATE: 31 MARCH 2022

Recommendation 2

The ever-changing nature of business in New Zealand needs to be proactively monitored and responded to by PwC. This business transformation is occurring at a variety of levels – including the changes in the core drivers of some businesses and sectors (driven by technology and changes in markets) and changes in society and its demographics. In keeping with changes in society, the Advisory Board notes, as examples:

- A significant rise in iwi-based entities playing a more substantial role in New Zealand's economy; and
- New developments in the delivery of public good type services – that have identifiable communities as their primary audience.

As a result, the Advisory Board suggests that the partner/staff structure, recruitment and training and client relationship processes each require further development for PwC to be able to continue to deliver quality audits whilst flexing and growing with these diverse changes.

PwC New Zealand's Response

We are committed to increasing ethnic identification at all levels across PwC and the Audit team, particularly for Māori and Pacific people, and enhancing the cultural confidence and fabric of our firm. Firmwide programmes are being extended this year to help us all in this area. This is important as the diversity of our audit clients changes. We are very focused on the need to have more staff and partners who identify as Māori and Pacific people in our audit practice and in conjunction with the broader firm will develop specific programmes to achieve this.

Our training and client relationships programmes will also be reviewed to ensure they are suitably flexed for the changes that the Advisory Board has noted.

RESPONSIBILITY: RICH DAY (AUDIT LEADER)
DATE: 30 JUNE 2022





Recommendation 3

The kernel of delivering quality audits, in the public interest, is the current and future supply of highly competent and experienced audit professionals – who continue to fully develop their PwC career. Whilst PwC is currently very well served, the audit profession is becoming more demanding on a number of fronts. In addition to the concern about short-term headwinds that underlie Recommendation 1, with a longer term view a proactive approach (possibly in conjunction with universities and the professional body) is required to develop graduates with the right capabilities to deliver tomorrow's audits. Engaging and retaining the next generation will require broader and more flexible career experiences and ways of working. Extensive succession planning is required and also a planned approach to articulate the attractiveness of a PwC career as an audit professional.

PwC New Zealand's Response

We will initiate discussions with universities and other interested parties around the future of audit and the capabilities that are needed.

In addition, we will develop a programme of work to embed the importance and value of being an audit professional in our internal communications and as part of graduate and summer intern recruitment activity. A key component of this is building a strong identity for our team as proud auditors with a clear linkage to our Firm's purpose to build trust in society through consistently delivering quality audits.

RESPONSIBILITY: PHIL TAYLOR
(PEOPLE EXPERIENCE LEADER – AUDIT)
DATE: 30 JUNE 2022

Recommendation 4

It became evident to the Advisory Board during this period that the regulatory process in New Zealand, particularly as it relates to disciplinary actions, is having (and being seen to have) an unnecessarily adverse impact on the operation of New Zealand's audit market and is not serving to enhance audit quality. Whilst necessary, this system appears to have additional layers and unnecessarily prolonged processes when compared to similar overseas jurisdictions. In the opinion of the Advisory Board a multi-stakeholder review (possibly led by government agencies) could identify improvements that would be both of benefit to audit quality and free from the chilling effect on recruitment, retention and wellbeing that is apparent as a by-product of the current regime. To not undertake this expeditiously may risk the further deterioration in the number of participants in New Zealand's audit market and have serious ramifications for audit quality and therefore the public interest.

PwC New Zealand's Response

The profession is facing numerous challenges as noted in the earlier recommendations from the Advisory Board. We have sought to understand other participants' perspectives on this matter. Early indications from participants is that we need to seek alternative ways to approach this important aspect to ensure the long term sustainability of the audit profession and enhance audit quality. We will continue to liaise and work with other participants.

RESPONSIBILITY: MARK AVERILL (CEO)
DATE: 30 JUNE 2022





Future agenda

The Advisory Board will in future years seek to review its approach to its work, make any necessary amendments to that approach to fully respond to new and emerging developments, maintain a two-year running plan of activities and continue to report to PwC's Board on its findings and recommendations.

Planned future agenda items include:

- Client relationships – management thereof and importance of working with audit committees to enhance audit quality.
- Firm and audit practice culture towards audit quality.
- The regulatory environment both internationally and in New Zealand – new requirements in determining audit quality.
- Business transformation – the economic, social, technological and other changes which impact on audit quality.
- Impact of overseas discussions on assurance to include non-financial aspects of corporate reports (e.g. internal controls, governance and management reporting).
- Public expectations – as a driver for change – as in dictating the rate or type of change.
- Public interest demands – the changing demands on the audit profession.





What is audit quality?

At PwC, 'audit quality' means that we consistently:



Comply with auditing standards



Exercise professional scepticism



Use our experience and expertise to identify and resolve issues in a timely manner



Apply a deep and broad understanding of our clients' businesses and the financial environment in which they operate

The consistency is underpinned/driven by our values, governance and culture and the system of quality management in place.

Recognising our role in the capital markets, this means that we:

- ask tough questions
- apply an objective and sceptical mindset
- embrace the supervision and review process as a way to continuously improve
- stay current on professional standards
- have timely, meaningful exchanges with audit committees and management including identifying where an entity needs to improve financial reporting processes, resourcing and the quality of supporting workpapers
- plan our work and resolve issues in a timely and thorough fashion
- remain alert for issues that need deeper analysis
- act with professionalism
- provide reliable and informative audit reports.

Being independent is core to our role as auditors

We continue to focus on educating our staff and partners across the whole firm on the importance of external auditor independence and what this means in practice. Over the past year we have:

- Implemented a new global system which helps guide teams through considering the threats that may arise from the provision of non-audit services to an audit client and what safeguards may be able to be put in place.
- Undertaken a significant communication and awareness campaign to help our people better understand personal independence and the requirements of our PwC global independence policies.
- Increased the testing of our partners and staff's compliance with these personal independence policies. The results of this testing feeds into our recognition and accountability framework.
- Continued to require independence panels in certain circumstances to carefully consider the independence in appearance aspects of proposed engagements or relationships.

There may be times where the results we publish do not meet our high expectations or those of the community. Our ultimate goal is that investors, regulators, industry bodies, and the wider market have insight into how we operate and the steps we are taking to improve audit quality.



The rise of non-financial reporting

Sustainability and ESG (environmental, sustainability and governance) reporting by business is increasingly under the spotlight as stakeholders look to understand a company's role in society and how it is being impacted by climate-related issues.

At PwC New Zealand, we understand that stakeholders increasingly want to know more about a business than solely its financial performance. The disclosure of the current and future impacts of climate change, and wider sustainability issues, will be part of transparent and objective decision making in the future for businesses and investors alike.

This drive towards non-financial reporting is gaining pace and is expected to play a part in helping solve the climate change challenge. Disclosures will likely redirect the flow of capital away from high emissions to low emissions industries and technologies. With investors and other stakeholders likely to use this information to make significant decisions, climate-related financial disclosures will need to be accurate, objective, transparent, comparable and ultimately audited to the same level of quality as for financial information.

Climate-related reporting now and in the future

Climate risk considerations and how they impact financial reporting have increasingly become a significant focus under International Financial Reporting Standards (IFRS). Companies must assess, account for and disclose the material impacts of climate change in financial statements to comply.

Further change, bringing climate risk to the forefront of reporting is on the horizon. In our 2020 Transparency Report, we highlighted the likelihood of mandatory climate-related financial disclosures. Since then, the New Zealand Government has introduced the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill. This would require large publicly listed entities, large insurers, banks, non-bank deposit takers and investment managers to make climate-related financial disclosures. If approved by Parliament, the Bill is likely to take effect in 2023.

In June 2021 we released guidance to clients covering how they can get ready for mandatory climate-related financial disclosures in New Zealand. [Getting ready for mandatory climate-related financial disclosures](#) outlines what organisations can do now to prepare.



JONATHAN SKILTON
PARTNER
SUSTAINABILITY
REPORTING LEADER



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Companies must assess, account for and disclose the material impacts of climate change in financial statements.

The current state of climate-related reporting in New Zealand

At the moment, the majority of New Zealand's largest listed entities only provide limited information on what the impact of climate change means for them. The proposed mandatory climate-related financial disclosures will certainly improve the information available to stakeholders and go a long way to addressing the demands for climate-related information from the capital markets.

These disclosures will be aligned to the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations. To provide transparency to our clients and the market on the maturity of reporting against the TCFD framework we have produced analysis on the financial and sustainability reports of the NZX100.

Released in August 2021, [Climate-related disclosures in New Zealand – overview of the current state](#) revealed that New Zealand listed reporting entities have work to do. In the near term, businesses can improve on their climate-related reporting by first defining their reporting strategy and ambition, the 'end-goal', that includes TCFD recommended disclosures and other disclosures material to their company strategy and their stakeholders. After identifying gaps between current disclosures and their reporting ambition, organisations can begin to progressively implement plans that collect the data required, and embed processes and controls into tech-enabled reporting routines to the standard and quality appropriate to report on relevant disclosure metrics.

How is PwC preparing our people for climate-related financial disclosures?

To ensure our people are equipped with the appropriate knowledge and skills, we continue to invest through providing ongoing professional development and in-depth training in this area. PwC has developed sustainability and ESG related training that is being rolled out globally in the coming months. In New Zealand, we are focused on equipping our people with the appropriate methodologies, processes and technical knowledge.





The lasting impact of COVID-19 on auditing

The COVID-19 pandemic has had an unprecedented and long-lasting impact on society. It has led to innumerable changes in how we work and conduct business including how we manage and carry out external audits. Many of the changes we have seen are positive with others accelerating and magnifying challenges the profession was already facing.

Increase in remote working

Over the past 18 months there has been a considerable increase in remote working among our team. We have transitioned quickly and seamlessly to working outside of the office, enabled by our PwC network audit technology, infrastructure and tools. We have helped our people set up their home environments to better facilitate working from home.

After returning to Alert Levels 2 and 1, we saw more of our people choose to work remotely more regularly than before COVID-19 lockdowns. Perceived barriers to audits being conducted by a team of individuals not at a client site have been removed. Our audit teams can now be formed across New Zealand from leveraging one national resource pool regardless of where people are physically located. Teams may include staff working on site at the client's premises, people working remotely in

another city as well as offshore. Our teams now have the confidence to stay connected and to support each other to maintain audit quality from any working location.

Growing use of technology and design thinking

As manual tasks become increasingly automated and more people are working remotely (both auditors and clients), new technology and digital skills have become essential to the audit process. While our teams have been using tools such as PowerBi and Alteryx for some time, we are frequently identifying, developing and utilising new tools. We have invested in intensive training for some of our people to be champions of technology and tools. Otherwise known as Digital Accelerators, these team members help upskill our people from the inside out. They are embedded into audit teams to explore automation ideas that can be scaled into business-led innovation tailored to the specific needs of our clients.

With agility now a key skill, we have trained our senior audit staff to use design thinking principles to apply in audit planning and debriefing each year. These skills are invaluable for working more collaboratively with clients as we look to continually improve the audit experience for our teams and our clients alike.





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The border closure has brought to the forefront what many in the profession have been concerned about for some time – the long-term sustainability of the profession

Prioritising the wellbeing of our people

Our people are our first priority. To help ensure the wellbeing of our people we have made it an even greater focus of how we operate. For example alongside our range of existing wellbeing resources, we have offered our people tools to help manage physical and mental health. These have included access to the Headspace app, Mental Health First Aiders and the KYND app. This September we ran a month-long wellbeing programme, which included seminars, workshops and specialist live streams. We also provided two additional days paid leave over the 2020/2021 festive season to provide some extra time for rest and relaxation.

The impact of closed borders

Managing the impact of New Zealand's closed borders is a challenge for the profession. At PwC, we have always welcomed a large number of international secondees and employees from across our global network both for specific assignments and on a permanent basis. These programmes are all on hold. A number of people who were due to join us over the last year were not able to do so. At the same time, our highly skilled and trained professionals are increasingly sought after both here in New Zealand and internationally. These challenges mean there is currently a significant skills shortage in New Zealand, particularly of senior and experienced auditors.

To help work through these challenges, PwC New Zealand has implemented a range of initiatives including recruitment, alternative delivery models such as our offshore delivery centres, accelerating the use of technology, increasing staff remuneration, additional recognition and reward measures and ensuring our values and the purpose of working as an external auditor are communicated, understood and embraced by our people.

The sustainability of the profession

The border closure has brought to the forefront what many in the profession have been concerned about for some time – the long-term sustainability of the profession. Over the last decade there has been a sustained drop in the number of licensed auditors across New Zealand. This is due to a number of factors including increased scrutiny and ramifications for mistakes as well as a competitive job market and ever-growing career opportunities. Key questions we need to answer as a profession range from how do we attract future talent, to how do we ensure people want to become auditors. It will take many parties, including professional membership bodies, universities, regulators and audit practitioners, working together in the long term to position auditing as a profession that people want to join and stay part of.



Helping build the understanding of audit

At PwC, part of our work to provide greater transparency and improve audit quality involves helping build understanding about the importance of audit and its function. Over the past year we have done this through a variety of channels including events and thought leadership for clients which we have outlined below.

We have also continued our work providing commentary and analysis on the impact of COVID-19 on financial reporting and audit.

The continuing impact of COVID-19

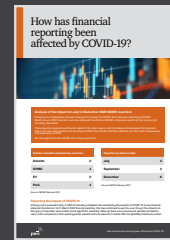
Following on from last year's reports investigating the [likely impact of the pandemic on audit reports](#) followed by analysis of the actual effect on [March to May](#) and [June](#) NZX50 reporters, we produced two further papers. The first covered the impact of the pandemic on July to December NZX50 reporters. The final report in our series took a close look at the effect on audit reports specifically. The analysis covered how auditors responded to the challenges and communicated their findings in audit reports.

In addition to our reports, PwC New Zealand Chief Risk & Reputation Officer, Karen Shires co-authored a paper for the Pacific Accounting Review on the impact of COVID-19 on audit. She also took part in two panel discussions on the subject to further discuss the effects of the pandemic on the profession.



KAREN SHIRES
CHIEF RISK &
REPUTATION OFFICER

Reports



[How has COVID-19 affected financial reporting? Analysis of July to December NZX50 reporters](#)
(March 2021)



[How did COVID-19 influence audit reporting in 2020?](#)
(August 2021)

Media commentary

- [NZ company accounts showing signs of inventory buildup, asset impairment. Interview with PwC Chief Risk & Reputation Officer Karen Shires](#)
(New Zealand Herald, 28 March 2021)
- [NZX-listed company accounts came through 2020 with some close calls. Interview with PwC Chief Risk & Reputation Officer Karen Shires](#)
(New Zealand Herald, 30 August 2021)

White paper

- [Auditing in the time of COVID – the impact of COVID-19 on auditing in New Zealand and subsequent reforms](#) by David Hay, Karen Shires and Debbie Van Dyk, Pacific Accounting Review, Volume 33, Issue 2, 2021

Speaking engagements

- External Reporting Board (XRB) Research Forum: Accounting and Auditing issues in response to COVID-19, panel member (27 November 2020)
- The effect of COVID on auditing for AFAANZ (Accounting and Finance Association of Australia and New Zealand) Accounting and Auditing Special Interest Group, panel member (12 May 2021)



Audit quality

Understanding the audit function and being able to evaluate quality are important factors in audit quality. Examples of how we have recently worked with stakeholders on these two points include:

- *Audit and IT systems: what finance professionals need to know* by Anthony Steele, Partner and Nouras Hasan, Director – PwC New Zealand (31 May 2021)
This article, published by the Institute of Finance Professionals New Zealand (INFINZ), examined what auditors do and don't cover in relation to IT in their external audit. It suggested ways finance professionals can get comfortable with the audit process and recommended areas where they can build their understanding of technology risk.
- *Assessing external audit quality – a suggested approach* by Karen Shires, Chief Risk & Reputation Officer and Rich Day, Audit Leader, PwC New Zealand (August 2021)
This paper outlines a suggested approach for Audit Committees to evaluate the quality of the external auditors and the external audit process. It includes a suggested set of questions to help evaluate audit quality, the performance of external auditors and their independence. The paper was included in the NZX's October 2021 Issuer Newsletter.



ANTHONY STEELE
PARTNER



NOURAS HASAN
DIRECTOR





Education for Directors, audit students and other key stakeholders

Part of our role as auditors is to help educate clients on the role and importance of audit as well as assist in building a sustainable and vibrant profession through working with the next generation of auditors. Members of our team took part in the following education forums over the last year:

Students

- Technical auditing at the Auckland University of Technology (AUT) on 5 May 2021 (Indy Sena)
- Audit issues, development in audit technologies and the future of audit at the University of Auckland on 30 May 2021 (Indy Sena)
- Guest speaker at the Albany Campus Business School Graduation Ceremony Massey University 25 May 2021 (Karen Shires)
- How audit is changing at Massey University on 7 September 2021 (Karen Shires)
- Substantive auditing procedures: revenue and expenses at AUT on 20 September 2021 (Troy Florence)

Roles

- Chair of the University of Canterbury School of Business Advisory Board (Nathan Wylie)
- Member of the Advisory Board of Entre Incorporated (an entrepreneurship vehicle for students) at the University of Canterbury (Nathan Wylie)

Directors and CFOs

Lessons from the reporting season

Tuesday 13 October 2020: Mary-Jane Daly (Non-Executive Director), Karen Shires and Regina Fikkers (PwC Australia Accounting and Regulatory Leader) discussed the major lessons from the 2020 reporting season with an audience of non-executive directors.



INDY SENA
PARTNER
AUDIT



KAREN SHIRES
CHIEF RISK &
REPUTATION OFFICER



TROY FLORENCE
PARTNER
AUDIT



NATHAN WYLIE
PARTNER
AUDIT



KEREN BLAKEY
CHAIR
PARTNER AUDIT

Lessons from the reporting season

Thursday 3 December 2020: Brent Mealings (Chief Financial Officer, Metro Performance Glass), Michael Graham (Group Financial Controller, Auckland International Airport Limited), Karen Shires and Regina Fikkers (PwC Australia Accounting and Regulatory Leader) discussed the implications of the COVID-19 pandemic on financial reporting and how companies and their auditors responded as part of PwC's CFO Network.

Our Accounting Technical team led by partners Stephen Hogg and Tiniya du Plessis produced information of areas of particular interest for clients including:

- *In depth: a look at current financial reporting issues – accounting for SaaS arrangements* (July 2021)
- *In Brief: climate-related risks: the impact on financial reporting* (December 2020)



Contributing to the wider profession

Our people fulfill a range of different roles that contribute to audit quality outside our firm. These include:



STEPHEN HOGG
PARTNER
CAPITAL MARKETS
ACCOUNTING
ADVISORY SERVICES

Stephen is a member of the External Reporting Board (XRB) Technical Reference Group (TRG) – a forum for the New Zealand Accounting Standards Board (NZASB) to consult on technical accounting issues. The NZASB appoints members of the TRG based on their technical knowledge and experience of entities in different sectors and different tiers of financial reporting.



NATHAN CIPPERLEY
DIRECTOR
AUDIT METHODOLOGY
LEADER

Nathan is part of the XRB's Audit Reference Group (ARG). This group was established to provide feedback to the International Auditing and Assurance Standards Board member based in New Zealand before each board meeting.

NEW APPOINTMENTS



VASANA VANPRASEUTH
PARTNER
AUDIT

Vasana was appointed to the New Zealand Auditing and Assurance Standards Board (NZAuASB) from 1 July 2021.

The NZAuASB is a committee of the XRB responsible for the development, approval and issuing of auditing and assurance standards. This includes professional and ethical standards for assurance practitioners. Its purpose is to provide high quality assurance that engenders confidence in the fair presentation of information presented in financial reports.

“Establishing and maintaining quality audit and transparency is fundamental to stakeholder accountability, supporting investor confidence and helping businesses become global competitors. I feel incredibly privileged to work with the Board, to maintain high standards of trust and confidence in the capital markets.”



ANNABELL CHARTRES
PARTNER
SUSTAINABILITY
& CLIMATE CHANGE
LEAD

The XRB appointed Annabell to its External Advisory Panel for climate-related disclosures standards setting.

When the New Zealand Government announced its intention to implement mandatory reporting on climate risks in September 2020, the XRB was tasked with developing reporting standards to support the new reporting regime. As part of XRB's role in setting these standards, it has formed an External Advisory Panel responsible for reviewing and providing subject matter expertise.

Annabell is one of eight members on the Panel. Her role will be reviewing and providing input as these standards are developed and finalised by the end of 2022.

“It's a privilege to be appointed to this role and to be able to bring an industry and client sector lens to ensure that the XRB standards drive the right outcomes for New Zealand”.



PwC is #Auditor Proud

#AuditorProud week
(27 September – 1 October 2021)

#AuditorProud week is a global celebration of the pivotal role auditors play in maintaining trust and confidence in the capital markets. This year some members of the PwC team shared what makes them proud to be an auditor.

“We work together to deliver high quality audits for our clients, bringing trust to the New Zealanders who rely on the information we provide.”



Rich Day
Financial Assurance Leader,
PwC New Zealand

“I’m proud to be part of a team that has adapted quickly to provide the trust and confidence needed in these uncertain times.”



Nathan Wylie
Partner, PwC New Zealand

“The best part of being an auditor is mentoring and helping develop our future talent. I get inspired by the people I work with everyday.”



Vasana Vanpraseuth
Partner, PwC New Zealand

“I enjoy working with CFOs, having exposure to a variety of industries and constantly learning about new business trends.”



Shreya Ahuja
Associate, PwC New Zealand

Introducing our new audit partners

Admitted 1 January 2021



Sarah Turner
Audit and assurance

“The audit process is continuing to evolve through the use of technology. For clients it simplifies the process, increases consistency and audit quality.”

Admitted 1 January 2021



Vasana Vanpraseuth
Audit and assurance

“I believe that audit quality and transparency is fundamental to the role of the auditor and the trust we bring to the capital markets. Transparency of the audit has evolved over the years, from the reporting of key audit matters in audit opinions to the release to PwC NZ’s Assurance Transparency Report in November 2020, the first of its kind for a NZ audit firm.”

Admitted 1 July 2021

“Whether you’re a small or large business, you still need to meet investor expectations on the fair presentation of financial statements. But financial assurance is about more than financial statements. It’s about helping management make well informed decisions by giving an independent and experienced viewpoint.”



Simon Kirkpatrick | Financial Assurance

pwc.co.nz/newpartners



APPENDIX:

Glossary of terms

ARG – Audit Reference Group

Audit and accounting knowledge quizzes – Quizzes completed by our people to test their audit and accounting knowledge

CMAAS – Capital Market Accounting Advisory Services (our Accounting Technical team)

CPD – Continuing professional development

ESG – Environmental, social, governance

EQCR – Engagement Quality Control Reviewer

FMA – Financial Markets Authority

GPS – Global people survey

IFIAR – International Forum of Independent Audit Regulators

IFRS – International Financial Reporting Standards

INFINZ – Institute of Finance Professionals New Zealand

KAM – Key Audit Matter

NZASB – New Zealand Accounting Standards Board

NZAuASB – New Zealand Auditing and Assurance Standards Board

NZICA – New Zealand Institute of Chartered Accountants

OAG – Office of the Auditor-General

PIE – Public interest entity

PwCIL – PricewaterhouseCoopers International Limited

R&Q – PwC New Zealand Risk and Quality Team

SoQM – System of Quality Management

TCFD – Task Force on Climate-related Financial Disclosures

XRБ – External Reporting Board





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