



Audit Quality Report 2022

**The market
demands
and deserves
courage**



Foreword

Our purpose is fuelling the prosperity of New Zealand, **for all New Zealanders.**

Tītokona tō tātou tōnuitanga,
mō Aotearoa, mō tātou.

Confidence in our business communities is essential to New Zealand's prosperity. High quality, independent audit is the cornerstone of that confidence.



Quality audits are the cornerstone of our business communities and therefore the jobs, wealth and wellbeing created by those who rely on that capital.

Accounting is about 'being held to account', and auditors assure the reliability of the information provided by organisations to those who provide them with capital, credit or their own labour.

New Zealand organisations are becoming more complex. They're more transnational, more digital, less tangible, more dynamic and less stable.

This organisational intricacy, coupled with the increasing complexity of regulation for auditors to comply with, drives KPMG New Zealand to continuously develop and improve the quality of our audit work.

Every week, hundreds of our auditors bring their skill, expertise and diligence to audits across the country. This report dives into a range of aspects of audit quality, and how these are changing and developing over time.

In this 2022 Audit Quality Report, we mark the year against the framework used by KPMG to measure and deliver audit quality.

Whether you are a preparer, director, trustee, taxpayer or regulator, I hope you find it useful.

**Brent Manning
National Managing
Partner, Audit
KPMG New Zealand**



As the caretaker of our risk and audit quality, I constantly track and work on the many elements that drive a quality outcome from a KPMG New Zealand audit.

Whilst some of those are very tangible, like providing our auditors with the best audit technology, some are much more intangible, like ensuring our people are committed to doing the right thing, every single time.

Hiring people with that mindset is key. Ensuring the environment we work in, our tone at the top and our values reinforce the importance of 'doing the right thing' is critical. And equally, having people ready and able to put their hand up and question what they're seeing is just as important.

This year, our inaugural Audit Quality Report focuses on 'courage'. This focus came out of a series of interviews with

directors, investors and regulators to understand their views on what drives a quality audit.

Whilst they covered a range of the elements of audit quality, the consistent theme we heard when asking what drove a high-quality audit was the courage to dive into what doesn't look right, keep going until you get clear evidence, and to say what needs to be said.

Thank you to all of those interviewed. Kia kaha. Kia māia.

**Darby Healey
Partner, Risk and
Audit Quality
KPMG New Zealand**



The very first attribute I look for in a new audit partner relationship is courage and being brave. Great audit partners have lots of courage. But not reckless courage!

Bruce Hassall
Experienced Director

Courage deep dive

Our preparation for this 2022 Audit Quality Report included interviews with a range of external stakeholders, including senior directors, regulators and investor groups, to understand their priorities when it came to audit quality. Off the back of those interviews, this year we have taken a deep dive into the stakeholder theme of 'courage'.

When we asked our stakeholders "what drives a quality audit", courage was raised by most respondents in one form or another. So, what did those people mean when they talked about 'courage' in this context?

Courage is the "mental or moral strength to venture, persevere, and withstand danger, fear, or difficulty". Audits hopefully aren't physically dangerous, but audits are difficult, and day-to-day pressure on auditors is real.

Courage has a number of different contexts when it comes to delivering a quality audit. We've explored three themes:

1. **Courage within our audit teams**
2. **Courage in our relationship with client management**
3. **Courage with the board**

Courage within our audit teams

Courage in an audit starts with the courage and confidence our audit team members having to raise their hand when they don't understand, they disagree, or they haven't had time to complete a task.

That confidence comes from the way their supervisor, manager and partner behave on the job. And that, in turn, starts with the values of the firm, the culture, and tone at the top.

Issues that arise on audits are not always from the risky or judgmental areas of the entity that attract the most manager or partner time. They can sometimes arise from areas junior staff work on. It is vital that all team members understand the role they play in delivering a quality audit.

At KPMG we spend a lot of time ensuring we have that grassroots culture right.

We're pleased with the feedback we see from our audit people this year, with steady improvements compared to prior years and global results.

98%

of our people agree that
"In the engagement teams I work with, a commitment to audit quality is evident in our day-to-day behaviours."



Culture and values are the most important. You can have the most brilliant people, but if they aren't in the right environment to put their hand up and say something is wrong, that is the biggest risk.

Jacco Moison
Head of Audit & Financial Reporting
Financial Markets Authority



The auditor needs to challenge the business.

Susan Paterson
Experienced Director



Boards want an auditor that will do a top quality job, have a slightly edgy relationship with management, respectful but not afraid to fall out with them, have a voice.

Bruce Hassall
Experienced Director

Courage with client management

The experienced directors we spoke to emphasised the importance of auditors having a courageous relationship with management.

Courage with management requires individual auditors not to 'let things slide', not to be fobbed off by a light management response, not to rely on weak evidence, and not to be intimidated.

A power imbalance can come from junior auditors dealing with more experienced management teams. This means the make-up of audit teams in the field is particularly important.

Audit work is team work, and audit teams need to be led by regular, engaged and supportive supervisors, managers and partners who are there to encourage their audit team members to understand where that line is drawn.

Challenging evidence, judgements and estimates to ensure they are robust, is the essence of our auditor's relationship with management teams.

94%

of our people agree that
"The engagement teams I work with emphasise the importance of applying a sceptical mindset in providing independent assurance, and our role in supporting the capital markets and protecting the public interest."

Courage with the board

In our interviews, directors, regulators and investor groups all highlighted the importance of auditors being courageous, open and clear in their communications with audit committees and boards of directors.

A resounding response from those interviewed was that directors rely on the insights that auditors bring from their wide experience across many entities and their in-depth dealings with management. The board expects honest and courageous views on the state of play.

Directors said that they rely on the partner and their senior audit team to highlight to directors and audit committees when they disagree with a position, when they believe management isn't giving them the full story or enough information, or to highlight gaps or weaknesses in management's processes or skillsets.

For boards to do their job effectively, our communications with the board need to be clear and timely, and appropriately weighted so that we don't overplay or underplay a judgement or concern.



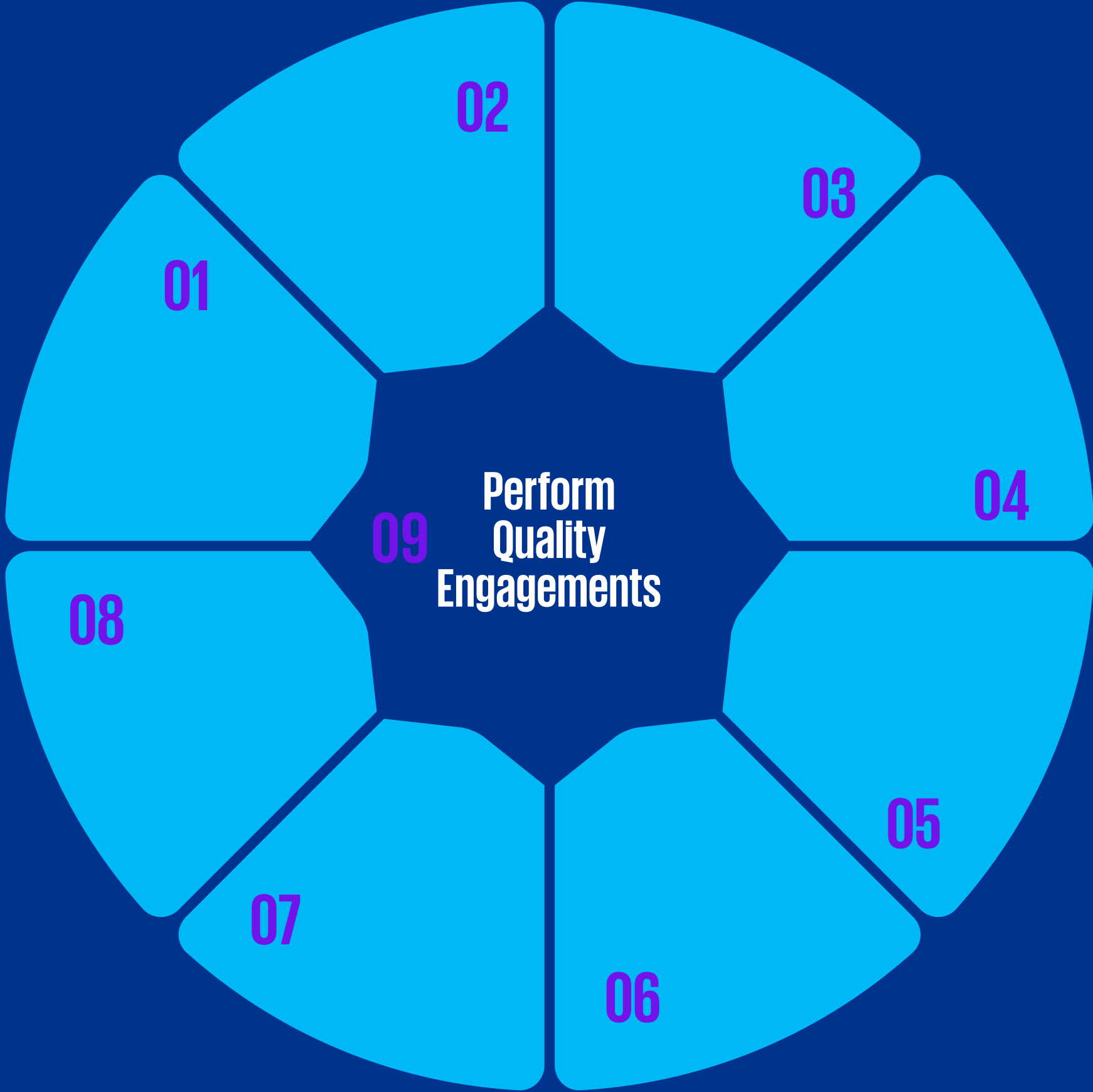
The auditor, management, board triangle must be strong. Face to face discussion between the audit partner and the Audit Committee Chair or Audit Committee is an essential part of the three-way communication.

Jonathan Mason
Experienced Director



Where critical judgments are required, the auditors should ensure the directors understand where there are alternative approaches to making the judgement.

Jan Dawson
Experienced Director



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