

## Board Meeting Agenda

25 October 2017

9.15 am to 5.00pm

Manners Street, Wellington

Est. Time	Item	Topic	Objective		Page
<b>A: NON-PUBLIC SESSION</b>					
10.15am	<i>Morning tea</i>				
<b>B: PUBLIC SESSION</b>					
10.30 am	<b>3</b>	<b><u>Service Performance consultation plan</u></b>			
	3.1	Board meeting summary paper	Note	Paper	
	3.2	Outreach plan	Approve	Paper	
10:45 am	<b>4</b>	<b><u>Long association</u></b>			
	4.1	Board meeting summary paper	Note	Paper	
	4.2	Issues paper	Consider	Paper	
	4.3	Amendments to PES 1 (Revised)	Approve	Paper	
	4.4	Signing memorandum	Approve	Paper	
	4.5	Explanation for decisions made	Approve	Paper	
	4.6	Draft FAQs	Consider	Paper	
	4.7	Current FMA exceptions	Note	Paper	
11:45 am	<b>5</b>	<b><u>PIE definition</u></b>			
	5.1	Board meeting summary paper	Note	Paper	
	5.2	Draft ITC	Approve	Paper	
12:15 am	<b>6</b>	<b><u>Structure of the Code</u></b>			
	6.1	Board meeting summary paper	Note	Paper	
	6.2	Compelling reason test	Consider	Paper	
12:45 pm	<i>Lunch</i>				
1.30 pm	<b>7</b>	<b><u>Auditor Reporting Report with FMA</u></b>			
	7.1	Board meeting summary paper	Note	Paper	
	7.2	Draft report on New Zealand experience with Key Audit Matters	Approve	Paper	
	7.3	Results of second online survey	Note	Paper	
2:30 pm	<b>8</b>	<b><u>Auditor reporting FAQs</u></b>			
	8.1	Board meeting summary paper	Note	Paper	
	8.2	AUASB additional FAQs	Consider	Paper	
2:45 pm	<b>9</b>	<b><u>Examination of Prospective Financial Information</u></b>			
	9.1	Board meeting summary paper	Note	Paper	
	9.2	Draft project plan	Approve	Paper	
3.10 pm	<i>Afternoon tea</i>				

Est. Time	Item	Topic	Objective		Page
3:25 pm	<b>10</b>	<b><u>IESBA ED Requirements prohibiting improper inducements</u></b>			
	10.1	Board meeting summary paper	Note	Paper	
	10.2	Draft Submission	Consider	Paper	
	10.3	IESBA Exposure Draft	Note	Paper	
4.00 pm	<b>11</b>	<b><u>Guidance for prescribers</u></b>			
	11.1	Board meeting summary paper	Note	Paper	
	11.2	Draft guidance	Consider	Paper	
4:30 pm	<b>12</b>	<b><u>Environmental Scanning</u></b>			
	12.1	International monitoring update	Note	Paper	
	12.2	Domestic monitoring update	Note	Paper	
	12.3	Academic research update	Note	Paper	
<b>C: NON-PUBLIC SESSION</b>					

Next meeting: 13 December 2017, Wellington

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	3.1
<b>Meeting date:</b>	25 October 2017
<b>Subject:</b>	Service performance information outreach
<b>Date:</b>	10 October 2017
<b>Prepared by</b>	Misha Pieters

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

To:

- NOTE the consultation plan on ED NZAuASB 2017-2 New Zealand Auditing Standard xx *The Audit of Service Performance Information*, and PROVIDE feedback on the outline of the roundtable sessions.

### Background

1. The NZAuASB approved the issue of [ED NZAuASB 2017-2](#) by way of circular resolution.
2. A communique was issued on the 20<sup>th</sup> of September to notify stakeholders that the exposure draft has been issued and that comments are sought by the 20<sup>th</sup> of December.
3. A follow up communique was issued on 2<sup>nd</sup> October inviting stakeholders to register for a webinar followed by roundtable discussions planned for Christchurch, Auckland and Wellington.
4. We have also send email invitations to registered auditors inviting them to register for the events.
5. We have a list of those auditors that audit tier 1 and tier 2 charities and will follow up the email invites with a telephone call to invite those practitioners who we have identified as being engaged to audit a number of large charities.
6. At this stage, registration numbers for the roundtable discussions are low.
7. Charities services is also promoting the webinar and roundtable discussions on their facebook page.
8. We have an option to prepare a Perspectives Series article for CAANZ in order to further create awareness of the exposure draft and the outreach events.

9. Craig Fisher and Misha Pieters will present at the CAANZ audit conference on the 24<sup>th</sup> of November on the topic of Assurance over service performance reporting.

**Action required**

10. We ask the board to:
  - a. Note the actions taken to date to promote awareness of the exposure draft;
  - b. Provide feedback on the outline for the roundtable sessions.

**Material Presented**

Agenda item 3.1	Board Meeting Summary Paper
Agenda item 3.2	Draft agenda for roundtable discussions



<b>Agenda for roundtable discussions on ED NZAuASB 2017-2 New Zealand Auditing Standard xx The Audit of Service Performance Information.</b>	
Welcome and introduction	5 min
Overview of accounting standard	15 min
Overview of auditing ED	15 min
<b>Break out sessions</b>	
Where the standard sits in the assurance framework	10 min
Suitable service performance criteria	30 min
Assertions	10 min
Reporting	30 min
Wrap up	5 min
<b>Total</b>	<b>120 min</b>

The roundtable sessions are planned for:

- [Christchurch](#): Thursday 9 November 10:00AM – 12:00 Noon, Novotel Hotel, Cathedral Square
- [Auckland](#): Tuesday 14 November 10:00AM – 12:00 Noon, Heritage Hotel, 35 Hobson Street
- [Wellington](#): Thursday 16 November 10:00AM – 12:00 Noon, James Cook Hotel, The Terrace

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	4.1
<b>Meeting date:</b>	25 October 2017
<b>Subject:</b>	Long association
<b>Date:</b>	5 October 2017
<b>Prepared by</b>	Misha Pieters

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

To:

- CONSIDER remaining issues;
- APPROVE *Amendments to PES 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client*;
- APPROVE the signing memorandum;
- APPROVE the explanation for decisions made;
- APPROVE FAQs to be added to the XRB website.

### Background

1. The NZAuASB agreed to adopt the international revisions but to amend the New Zealand definition of a public interest entity at the September Board meeting. The Board requested us to follow up on some remaining issues:
  - a. meet with the FMA to discuss the possibility and desirability of exemptions,
  - b. work with the NZX as it consults to amend the listing rules,
  - c. develop FAQs, in conjunction with the APESB and NZX, to address implementation matters related to recurring other assurance engagements; and
  - d. further consider issues related to aligning the independence requirements for audits and reviews and other assurance engagements.
2. We met with the NZX who have now issued the NZX discussion paper  
<https://m.nzx.com/regulation/nzx-rules-guidance/consultation/nzx-listing-rules-review>.

3. We met with the FMA on 12 October to discuss exemptions and will provide a verbal update of the discussion at the meeting. During the course of the meeting we were informed of the current FMA exemptions, which we will provide as a late paper.

**Action required**

4. We ask the board to:
  - a. Consider the remaining issues outlined in agenda item 4.2;
  - b. Approve Amendments to PES 1 (Revised) for issue;
  - c. Approve the draft signing memorandum;
  - d. Approve the explanations for decisions made;
  - e. Approve additional FAQs to add to the XRB website, subject to feedback from the APESB.

**Material Presented**

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	Issues Papers
Agenda item 4.3	Amendments to PES 1 (Revised)
Agenda item 4.4	Signing memorandum
Agenda item 4.5	Explanation for decisions made
Agenda item 4.6	Draft FAQs
Agenda item 4.7	Current FMA exemptions (Late paper)

**Issues paper – long association**

1. This paper considers the key matters outstanding prior to finalising the amendments to PES 1 (Revised) in New Zealand. These relate to:
  - a. Equating the long association requirements for all assurance engagements and the effective date of such provisions;
  - b. Recurring engagements that recur less than annually and the need for further clarification;
  - c. Dual listed entities.

*Equating the requirements for all assurance engagements*

2. At the September meeting, the Board noted that the majority of submissions did not agree with the proposal to extend the cooling off period to 5 years for assurance engagements other than audits and reviews for clients that are public interest entities (PIEs). The IESBA has only amended the general provisions in section 291, the section that applies to other assurance engagements, and has not included the more stringent PIE requirements in section 291. The majority of submitters prefer to align with the international requirements, questioning why the compelling reason has been met. However, submitters did agree that conceptually the same independence rules should apply to all assurance engagements.
3. Two submitters raised concerns that it may be more onerous to apply the rules to other assurance engagements where there is a limited pool of expertise. We note that similar supply concerns were raised for audits of specialised industries, i.e. the supply issue is not limited to other assurance engagements.
4. As noted in the discussions at the September meeting, the Board has chosen to make a number of amendments to section 291 of PES 1 (Revised), making it more onerous than the IESBA Code, as it relates to assurance engagements other than audits or reviews ("other assurance engagements"). This was done on the grounds that there should not be a difference between assurance engagements and audits for public interest entities (PIEs).
5. Examples of where such changes have been made include adding PIE requirements and definition to section 291 of PES 1 (Revised). This relates to the prohibitions (rather than the general provisions) on the provision of non-assurance services to assurance clients, some provisions related to fees and the long association requirements. In addition, in the recent project on non-compliance with laws and regulations, the NZAuASB also agreed to equate the frameworks for all assurance

engagements. Any questions related to the ongoing need for such changes is beyond the scope of the project to amend the long association provisions as a result of changes made by IESBA.

6. Now that the long association provisions for auditors of PIEs are changing, consistent with the prior decision of the board to align the requirements for all assurance engagements, in the exposure draft the NZAuASB proposed to extend the requirements to match the new cooling off requirements.
7. Some board members raised concerns that it is still too early to apply these new rules to other assurance engagements. However, not to do so, undermines the compelling reason for making a number of changes to PES 1 to align the independence requirements for all assurance engagements performed in accordance with PES 1 (Revised).
8. We identified three options for finalising the long association amendments:
  - a. Amend PES 1 (Revised) as proposed, so that the requirements remain consistent for all assurance engagements;
  - b. Retain the existing rules in PES 1 (Revised) which are more prescriptive than the IESBA Code in section 291 (related to other assurance), currently requiring a 7 year on 2 year off rotation cycle;
  - c. Remove the additional PIE requirements related to long association in section 291.

If the Board continues to have reservations about the compelling reason changes made to section 291 related to other assurance engagements, we recommend that this is undertaken as a separate project to relook at the prior compelling reason changes made at a later stage (possibly as part of the restructure project in New Zealand).

9. The NZAuASB tentatively agreed to take option (a) in September but requested that staff also consider:
  - a. how this relates to research undertaken to investigate the use of the XRB standards by other practitioners; and
  - b. whether it would be appropriate to defer the effective date of the new rotation rules for other assurance engagements in New Zealand. This is an option because this is IESBA plus and therefore is a New Zealand requirement.
10. We do not recommend deferring the effective date. We consider that the implementation date is difficult to understand so to create another date will add to implementation complexity and confusion.

11. We do however recommend adding the highlighted words to the IESBA effective date, given the need to factor in the element of retrospective application that the 7 and 5 rotation rules bring into effect:

Subject to the transitional provision below, paragraphs 290.148 to 290.168 are effective for audits of financial statements for periods beginning on or after December 15, 2018. Paragraphs 291.137 to 291.141 are effective as of December 15, 2018. Paragraphs NZ291.141.1-15 are effective for assurance engagements for periods beginning on or after December 15, 2018. Early adoption is permitted.

12. In addition, the research project on the use of ISAE (NZ) 3000 did not include the information needed to address the issue raised as it was undertaken for a different purpose. Further research will need to be undertaken should the Board decide to revisit the compelling reason for extending the more stringent requirements to s291 related to other assurance engagements.
13. As mentioned, we consider that if the Board continues to have reservations about the compelling reason changes made to s291, this should be reviewed as a separate project.
14. **Does the board agree to align section 291 with section 290 as proposed and align the effective date as proposed?**

*Guidance on engagements that recur every second year*

15. Deloitte noted that the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (the 'AML/CFT Act') section 59 requires a reporting entity to have its risk assessment and AML/CFT programme audited at least every 2 years by an independent person. This person is not required to be a chartered accountant nor do they need to be qualified to undertake financial audits (section 59(4)).
16. Deloitte sought further guidance on how to apply the requirements when engagements are recurring but not over consecutive periods. Again, using the AML/CFT Act as an example, current practice is to audit the risk assessment and work programme every second year, so while this is recurring (and typically performed for banks and financial institutions which are public interest entities), the opinion only covers every second year of operation. It is not clear how the rotation and cooling off requirements apply to these engagements given the assurance engagement periods are not consecutive.
17. We consider that the amendments made by the IESBA clarify that the requirements are for cumulative, not consecutive, years and that this assists to clarify the application in the example of the AML/CFT Act described. We have drafted an FAQ to clarify how we believe that the requirements would apply in these circumstances (refer to agenda item 4.6).
18. We recommend that clarification that the time on is cumulative not consecutive confirms that the amendments made by the NZAuASB to section 291 are not overly

onerous(i.e., for an engagement that occurs every second year, the engagement partner could result in the time on period that spans 14 consecutive years). This is unlikely to be too onerous to comply with in practice.

19. We do not consider that further change to PES 1 (Revised) is needed to clarify this point but consider that this matter is better dealt with in FAQs.

## 20. Does the Board agree?

### *Dual listed entities*

21. The Board agreed to further investigate the matter of which rules apply to dual listed entities with the Accounting Professional and Ethical Standards Board (APESB) in Australia and the NZX. We have reached out to both to consider the initial thinking outlined below.

22. Our initial thinking is that there are one of two options:

- a. Either the more stringent rules apply; or
- b. If the entity is subject to the Corporations Act 2001 in Australia, for these entities there remains the ability to defer the 5 year cooling off period.

23. It is not uncommon for firms to need to understand the ethical and more specifically rotation requirements of other jurisdictions. In most circumstances, the auditor would apply the more stringent rules. However, the way in which the Code is now written, it may permit, in limited circumstances, for a lesser requirement to apply until 2023.

24. The NZX estimates that there are 35 dual listed issuers (30 that have foreign exempt status and 5 ASX standard Listed issuers). While entities with foreign exempt status do not need to meet the majority of the ASX's listing requirements, the question that arises is whether the Corporations Act 2001 (the Act) in Australia applies to these entities as it is s324DA of this Act that will determine whether the jurisdictional provisions in s290.163 can be used or not.

25. The following are extracts from the Act:

*"listed"*: a company, managed investment scheme or other body is *listed* if it is included in the official list of a prescribed financial market operated in this jurisdiction.

### S324DA

- (1) If an individual plays a significant role in the audit of a listed company or listed registered scheme for 5 successive financial years (the *extended audit involvement period*), the individual is not eligible to play a significant role in the audit of the company or the scheme for a later financial year (the *subsequent financial year*) unless:

- (a) the individual has not played a significant role in the audit of the company or the scheme for at least 2 successive financial years (the *intervening financial years*); and
- (b) the intervening financial years:
  - (i) commence after the end of the extended audit involvement period; and
  - (ii) end before the beginning of the subsequent financial year.

26. One possibility (that may be subject to a legal opinion) is that if a dual listed entity is included in the official list of a prescribed financial market operated in Australia, then s324DA applies and the option of using a shorter cooling off option would apply at least until 2023 for entities that are listed on the official list. This will allow the auditors of the New Zealand entities that have dual listing to apply the less stringent rotation rules (5 years on and 3 years off) until 2023.

27. If the legal position does allow it, there is a need to consider the desirability of having inconsistency for New Zealand listed entities. We seek feedback from the Board as to how important it is for all New Zealand listed entities to be subject to the same auditor rotation requirements?

28. If the Board wishes to make sure that all New Zealand listed entities are subject to the same rules, one possibility is to remove paragraph 290.163 from PES 1 (Revised) so that there is no option to take a shorter cooling off period in accordance with PES 1 (Revised). This will remove the need to obtain a legal opinion.

29. **We seek the views of the board on whether a legal opinion is needed and whether it is most desirable to ensure that the more stringent requirements apply consistently.**





NZ AUDITING  
AND ASSURANCE  
STANDARDS BOARD

## AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1 (REVISED) PROVISIONS ADDRESSING THE LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

This Standard was issued on [date] by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date].

Subject to the transitional provision below, paragraphs 290.148 to 290.168 are effective for audits of financial statements for periods beginning on or after December 15, 2018. Paragraphs 291.137 to 291.141 are effective as of December 15, 2018. Paragraphs NZ291.141.1-15 are effective for assurance engagements for periods beginning on or after December 15, 2018. Early adoption is permitted.

Paragraph 290.163 shall have effect only for audits of financial statements for periods beginning prior to December 15, 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for engagement partners in those jurisdictions where the legislative body or regulator (or organisation authorised or recognised by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to amend Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* as a result of changes made by the International Ethics Standards Board for Accountants (IESBA) to the IESBA Code of Ethics to the provisions addressing the long association of personnel with an assurance client.

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**AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1 (REVISED)  
PROVISIONS ADDRESSING THE LONG ASSOCIATION OF PERSONNEL WITH AN  
ASSURANCE CLIENT**

**CONTENTS**

**A: INTRODUCTION**

**B: AMENDMENTS TO SECTION 290 AND SECTION 291 OF  
PROFESSIONAL AND ETHICAL STANDARD 1 (REVISED)**

**C: EFFECTIVE DATE**

DRAFT

## A: INTRODUCTION

This document sets out amendments to Professional and Ethical Standard (PES) 1 (Revised) *Code of Ethics for Assurance Practitioners*. These amendments have been issued as a result of changes made to the International Code of Ethics for Professional Accountants issued by IESBA.

Section B of this document sets out amendments to section 290 and section 291 of PES 1 (Revised). New text is underlined and deleted text is struck through.

The IESBA have issued a close-off document prepared in accordance with the extant structure and drafting conventions of the IESBA Code. It will be used as a basis for preparing a restructured version in accordance with the revised structure and drafting conventions agreed under the project to restructure the Code of Ethics. The formal release of the revised international standard will be in the restructured form.

The restructured Code will also be adopted in New Zealand once it is finalised. These amendments will therefore not be compiled into PES 1 (Revised) but will be included in the New Zealand Code when it is issued in its restructured form.

**B: AMENDMENTS TO SECTION 290 AND 291 OF PES 1 (REVISED)****SECTION 290****INDEPENDENCE – AUDIT AND REVIEW ENGAGEMENTS**

*[Paragraphs 290.1 – 290.147 of extant Section 290 remain unchanged]*

**Long Association of ~~Senior~~ Personnel (Including Partner Rotation) with an Audit or Review Client***General Provisions*

290.148 Familiarity and self-interest threats, which may impact an individual's objectivity and professional scepticism, are may be created and may increase in significance when an individual is involved in by using the same senior personnel on an audit or review engagement over a long period of time.

Although an understanding of an audit or review client and its environment is fundamental to audit quality, a familiarity threat may be created as a result of an individual's long association as a member of the audit or review team with:

- The audit or review client and its operations;
- The audit or review client's senior management; or
- The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.

A self-interest threat may be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance, and which may inappropriately influence the individual's judgement.

290.149 The significance of the threats will depend on factors, individually or in combination, relating to both the individual and the audit or review client. such as:

(a) Factors relating to the individual include:

- The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
- How long the individual has been a member of the audit or review engagement team, and the nature of the roles performed.;
- ~~The role of the individual on the audit or review team;~~
- ~~The structure of the firm;~~
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit or review, for example, by making key decisions or directing the work of other members of the engagement team.

- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) Factors relating to the audit or review client include:

- The nature or complexity of the ~~audit or review engagement~~ client's accounting and financial reporting issues and whether they have changed.;
- Whether there have been any recent changes in ~~client's~~ senior management or those charged with governance. ~~team has changed;~~ and
- Whether there have been any structural changes in the client's organisation which impact the nature, frequency and extent of interactions the individual may have with senior management or those charged with governance.
- ~~Whether the nature or complexity of the client's accounting and reporting issues has changed.~~

290.150 The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management and the start of a new relationship.

290.151 The significance of ~~the~~ any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce ~~them~~ it to an acceptable level. Examples of such safeguards include:

- Rotating the ~~senior personnel~~ individual off the audit or review team.;
- Changing the role of the individual on the audit or review team or the nature and extent of the tasks the individual performs.
- Having an ~~additional~~ assurance practitioner who was not a member of the audit or review team review the work of the ~~senior personnel~~ individual. ; or
- Performing rRegular independent internal or external quality reviews of the engagement.
- Performing an engagement quality control review.

290.152 If a firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team or provide quality control for the audit or review engagement or exert direct influence on the outcome of the audit or review engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to independence to be eliminated or reduced to an acceptable level. In the case of a public interest entity, paragraphs 290.153 to 290.168 also apply.

*Audits or Reviews Clients that are of Public Interest Entities*

290.153 In respect of an audit or review of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for the engagement quality control review; or
- (c) Any other key audit partner role.

be a key audit partner for more than seven years. After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs 290.155 – 290.163.

290.154 In calculating the time-on period, the count of years cannot be restarted unless the individual ceases to act in any one of the above roles for a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs 290.155 to 290.157 as applicable to the role in which the individual served in the year immediately before ceasing such involvement. For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit or review engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph 290.158.

Cooling-off Period

290.155 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years. After such time, the individual shall not be a member of the engagement team or be a key audit partner for the client for two years.

290.156 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

290.157 If the individual has acted in any other capacity as a key audit partner for seven cumulative years, the cooling-off period shall be two consecutive years.

Service in a combination of key audit partner roles

290.158 If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

290.159 If the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall, subject to paragraph 290.160(a), be three consecutive years.

290.160 If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more cumulative years during the time-on period, the cooling-off period shall be:

- (a) Five consecutive years where the individual has been the engagement partner for three or more years; or

(b) Three consecutive years in the case of any other combination.

290.161 If the individual acted in any other combination of key audit partner roles, the cooling-off period shall be two consecutive years.

#### Service at a Prior Firm

290.162 In determining the number of years that an individual has been a key audit partner under paragraphs 290.153 to 290.154, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.

#### Position where Shorter Cooling-off Period is Established by Law or Regulation

290.163 Where a legislative body or regulator (or organisation authorised or recognised by such legislative body or regulator) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs 290.155, 290.158 and 290.160(a) provided that the applicable time-on period does not exceed seven years.

#### Restrictions on Activities During the Cooling-off Period

290.164 For the duration of the relevant cooling-off ~~During that~~ period, the individual shall not:

- (a) Be a member of the engagement team ~~participate in the audit or review of the entity,~~ or provide quality control for the audit or review engagement;
- (b) eConsult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit or review engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit or review);
- (c) Be responsible for leading or coordinating the firm's professional services to the audit or review client or overseeing the firm's relationship with the audit or review client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit or review client, including the provision of non-assurance services, that would result in the individual:

  - (i) Having significant or frequent interaction with senior management or those charged with governance; or
  - (ii) ~~or otherwise~~ Exerting directly influence on the outcome of the audit or review engagement.

The provisions of this paragraph are not intended to prevent the individual from assuming a leadership role in the firm, such as that of the Senior or Managing Partner.

#### Other Matters

290.165 There may be situations where a firm, based on an evaluation of threats in accordance with the general provisions above, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the



length of time served as a key audit partner is less than seven years. In evaluating the threats, particular consideration shall be given to the roles undertaken and the length of the individual's association with the audit or review engagement prior to an individual becoming a key audit partner.

290.166 Despite paragraphs ~~290.149~~<sup>290.153</sup>-290.161, key audit partners whose continuity is especially important to the audit quality of the engagement may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year on the audit or review team as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key audit partner may remain in that role on the audit or review team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. The firm shall discuss with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

~~The long association of other partners with an audit or review client that is a public interest entity creates familiarity and self interest threats. The significance of the threats will depend on factors such as:~~

- ~~• How long any such partner has been associated with the audit or review client;~~
- ~~• The role, if any, of the individual on the audit or review team; and~~
- ~~• The nature, frequency and extent of the individual's interactions with the client's management or those charged with governance.~~

~~The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:~~

- ~~• Rotating the partner off the audit or review team or otherwise ending the partner's association with the audit or review client; or~~
- ~~• Regular independent internal or external quality reviews of the engagement.~~

290.167 When an audit or review client becomes a public interest entity, the length of time the individual has served the audit or review client as a key audit partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the audit or review client as a key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the audit or review client as a key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the partner may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

290.168 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit or review of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such

circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified other requirements alternative safeguards which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

*[Paragraphs 290.154 – 290.228 of extant Section 290 remain unchanged but renumbered as paragraphs 290.169 – 290.243]*

## SECTION 291

### INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS

*[Paragraphs 291.1 – 291.136 of extant Section 291 remain unchanged]*

#### Long Association of ~~Senior Personnel~~ with an Assurance Clients

##### *General Provisions*

291.137 Familiarity and self-interest threats, which may impact an individual's objectivity and professional scepticism, ~~are~~ may be created and may increase in significance when an individual is involved on by using the same senior personnel on an assurance engagement of a recurring nature over a long period of time.

A familiarity threat may be created as a result of an individual's long association with:

- The assurance client; or
- The subject matter and subject matter information of the assurance engagement.

A self-interest threat may be created as a result of an individual's concern about losing a longstanding assurance client or an interest in maintaining a close personal relationship with the assurance client or a member of senior management and which may inappropriately influence the individual's judgement.

291.138 The significance of the threats will depend on factors, considered individually or in combination, such as:

- The nature of the assurance engagement.
- How long the individual has been a member of the assurance team, the individual's seniority on the team, and the nature of the roles performed, including if such a relationship existed while the individual was at a prior firm.;
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the assurance engagement, for example, by making key decisions or directing the work of other members of the engagement team.
- The closeness of the individual's personal relationship with the assurance client or, if relevant, senior management.

- The nature, frequency and extent of interaction between the individual and the assurance client.
  - Whether the nature or complexity of the subject matter or subject matter information has changed.
  - ~~The role of the individual on the assurance team;~~
  - ~~The structure of the firm;~~
  - ~~The nature of the assurance engagement;~~
  - Whether there have been any recent changes in the individual or individuals who are the responsible party or, if relevant, senior management. client's management team has changed; and
  - ~~Whether the nature or complexity of the subject matter or subject matter information has changed.~~
- 291.139 The combination of two or more factors may increase or reduce the significance of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and the assurance client would be reduced by the departure of the person who is the responsible party and the start of a new relationship.
- 291.140 The significance of ~~the~~ any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce ~~it them~~ to an acceptable level. Examples of such safeguards in relation to a specific engagement include:
- Rotating the individual senior personnel off the assurance team. ;
  - Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs.
  - Having an ~~additional~~ assurance practitioner who ~~was~~ is not a member of the assurance team review the work of the ~~senior personnel individual.~~ ; ~~or~~
  - Performing Regular independent internal or external quality reviews of the engagement.
  - Performing an engagement quality control review.
- 291.141 If a firm decides that the threats are so significant that rotation of an individual is a necessary safeguard, the firm shall determine an appropriate period during which the individual shall not be a member of the engagement team or provide quality control for the assurance engagement or exert direct influence on the outcome of the assurance engagement. The period shall be of sufficient duration to allow the familiarity and self-interest threats to independence to be eliminated or reduced to an acceptable level. In the case of a public interest entity, paragraphs NZ291.141.1 to NZ291.141.15 also apply.

*Assurance Engagements Clients that are of Public Interest Entities*

- NZ291.141.1 In respect of an assurance engagement for a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the "time on period")
- (a) The engagement partner;

(b) The individual appointed as responsible for the engagement quality control review; or

(c) Any other key assurance partner role.

~~be a key assurance partner for more than seven years. After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs NZ291.141.3 – NZ291.141.10.~~

NZ291.141.2 In calculating the time-on period, the count of years cannot be restarted unless the individual ceases to act in any one of the above roles for a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs NZ291.141.3 to NZ291.141.5 as applicable to the role in which the individual served in the year immediately before ceasing such involvement. For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit or review engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph NZ291.141.6.

#### Cooling-off Period

NZ291.141.3 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years. After such time, the individual shall not be a member of the engagement team or be a key assurance partner for the client for two years.

NZ291.141.4 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

NZ291.141.5 If the individual has acted in any other capacity as a key assurance partner for seven cumulative years, the cooling-off period shall be two consecutive years.

#### Service in a combination of key assurance partner roles

NZ291.141.6 If the individual acted in a combination of key assurance partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

NZ291.141.7 If the individual acted in a combination of key assurance partner roles and served as the key assurance partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall, subject to paragraph NZ291.141.8(a), be three consecutive years.

NZ291.141.8 If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more cumulative years during the time-on period, the cooling-off period shall be:

(a) Five consecutive years where the individual has been the engagement partner for three or more years; or

(b) Three consecutive years in the case of any other combination.

NZ291.141.9 If the individual acted in any other combination of key assurance partner roles, the cooling-off period shall be two consecutive years.

### Service at a Prior Firm

NZ291.141.10 In determining the number of years that an individual has been a key assurance partner under paragraphs NZ291.141.1 to NZ291.141.2, the length of the relationship shall, where relevant, include time while the individual was a key assurance partner on that engagement at a prior firm.

### Restrictions on Activities During the Cooling-off Period

NZ291.141.11 For the duration of the relevant cooling-off ~~During that~~ period, the individual shall not:

- (a) Be a member of the engagement team participate in the assurance engagement of the entity, or provide quality control for the assurance engagement; ;
- (b) eConsult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the assurance engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the engagement);
- (c) Be responsible for leading or coordinating the firm's professional services to the assurance client or overseeing the firm's relationship with the assurance client; or
- (d) Undertake any other role or activity not referred to above with respect to the assurance client, including the provision of non-assurance services, that would result in the individual:
  - (i) Having significant or frequent interaction with senior management or those charged with governance; or
  - (ii) ~~or otherwise~~ Exerting directly influence on the outcome of the engagement.

The provisions of this paragraph are not intended to prevent the individual from assuming a leadership role in the firm, such as that of the Senior or Managing Partner.

### Other Matters

NZ291.141.12 There may be situations where a firm, based on an evaluation of threats in accordance with the general provisions above, concludes that it is not appropriate for an individual who is a key assurance partner to continue in that role even though the length of time served as a key assurance partner is less than seven years. In evaluating the threats, particular consideration shall be given to the roles undertaken and the length of the individual's association with the assurance engagement prior to an individual becoming a key assurance partner.

NZ291.137.2141.13 Despite paragraphs NZ291.141.1-NZ291.141.9, key assurance partners whose continuity is especially important to ~~the audit quality of the engagement~~ may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year on the assurance team as a key assurance partner as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key assurance partner may remain in that role on the

assurance team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. The firm shall discuss with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

~~NZ291.137.3 The long association of other partners with an assurance client that is a public interest entity creates familiarity and self interest threats. The significance of the threats will depend on factors such as:~~

- ~~• How long any such partner has been associated with the assurance client;~~
- ~~• The role, if any, of the individual on the assurance team; and~~
- ~~• The nature, frequency and extent of the individual's interactions with the client's management or those charged with governance.~~

~~The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:~~

- ~~• Rotating the partner off the assurance team or otherwise ending the partner's association with the assurance client; or~~
- ~~• Regular independent internal or external quality reviews of the engagement.~~

~~NZ291.141.14 When an assurance client becomes a public interest entity, the length of time the individual has served the assurance client as a key assurance partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the assurance client as a key assurance partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the assurance client as a key assurance partner for a period of six or more cumulative years when the client becomes a public interest entity, the partner may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.~~

~~NZ291.141.15 When a firm has only a few people with the necessary knowledge and experience to serve as a key assurance partner on the assurance engagement of a public interest entity, rotation of key assurance partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key assurance partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified other requirements ~~alternative safeguards~~ which are to be applied, such as the length of time that the key assurance partner may be exempted from rotation or a regular independent external review.~~

*[Paragraphs 291.138-291.157 of extant Section 291 remain unchanged but renumbered as paragraphs 291.142 – 291.161]*

**C: EFFECTIVE DATE**

Subject to the transitional provision below, paragraphs 290.148 to 290.168 are effective for audits of financial statements for periods beginning on or after December 15, 2018. Paragraphs 291.137 to 291.141 are effective as of December 15, 2018. Paragraphs NZ291.141.1-15 are effective for assurance engagements for periods beginning on or after December 15, 2018. Early adoption is permitted.

Paragraph 290.163 shall have effect only for audits of financial statements for periods beginning prior to December 15, 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for engagement partners in those jurisdictions where the legislative body or regulator (or organisation authorised or recognised by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.

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## Memorandum

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**Date:** 28 October 2017

**To:** Graeme Mitchell, Chairman XRB Board

**From:** Robert Buchanan, Chairman NZAuASB

**Subject:** Certificate Signing Memo: *Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client* for issue in New Zealand

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### Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue *Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client* in New Zealand.
2. The impact of the amendments is to enhance the robustness of the long association requirements in line with international amendments. The largest impact will be for auditors of public interest entities (PIE), as the engagement partner will now be required to cool off for a minimum of five years instead of two years, and the engagement quality control reviewer will be required to cool off for a minimum of three years instead of two.

### **Due process followed in developing Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client**

#### International process

3. In August 2014, the International Ethics Standard Board for Accountants (IESBA) issued an exposure draft *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*, proposing to:
  - Strengthen the general provisions that apply to all audits and assurance engagements with respect to the threat created by long association;
  - Increasing the mandatory “cooling-off” period for the engagement partner on the audit of an entity that is a PIE;
  - Strengthening the restrictions on the type of activities that can be undertaken with respect to the audit client and audit engagement by a former key audit partner (KAP) during the cooling-off period; and



*Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client*

- Ensuring the concurrence of those charged with governance (TCWG) with respect to the application of exceptions to the rotation requirements.

The comment period closed in November 2014.

4. The IESBA received 77 comment letters in response to the exposure draft. Overall, there was support for the proposed enhancements to the general provisions addressing long association in the Code. There was also broad support for the time-on period for key audit partners (KAPs) on audits of PIEs remaining at seven years. There was generally less agreement on the other proposals concerning the rotation of KAPs on PIEs. Support for and opposition to the proposals for limited consultation by the engagement partner (EP) with the audit team during the cooling-off period were more evenly balanced. Support for and opposition to the proposal for additional restrictions on activities that can be performed during the cooling-off period were similarly balanced. There was generally broad support for the proposed corresponding changes to Section 291, dealing with assurance engagements, other than audits or reviews of financial statements.
5. In February 2016, the IESBA issued a Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client. The submission period closed in May 2016. The IESBA also issued a basis for conclusions regarding proposals that were exposed as part of the first exposure draft which the IESBA had closed at that stage, including reaffirming that the cooling-off period for the engagement partner on an audit of a PIE should be five years.
6. The limited re-exposure draft addressed:
  - The length of the cooling-off period for the engagement quality control reviewer (EQCR) on an audit of a PIE;
  - Circumstances where jurisdictions have established different legislative or regulatory safeguards addressing long association; and
  - Circumstances where an individual has served either as an EP or as an EQCR, or in a combination of those roles, for part of the seven-year time-on period.
7. The IESBA received 38 comment letters in response to the limited exposure draft.
8. In September 2016, the IESBA reached agreement on the provisions pertaining to the remaining three matters that were included in the re-exposure draft, taking into account respondents' feedback on the re-exposure draft as well as input from the Consultative Advisory Group. Subsequently, in early November 2016, the Public Interest Oversight Board (PIOB) communicated a number of concerns regarding the revised provisions, primarily regarding the perceived complexity and a perceived limited improvement in the cooling-off provisions due to permitted exceptions. As a result of discussions between senior representatives of the IESBA and the PIOB, the PIOB's concerns were narrowed down to three key areas, namely:

- The jurisdictional clause;
  - The exception that would permit under certain conditions an audit engagement team for a PIE to consult with an individual who previously acted as EP or EQCR on the audit engagement, and has already served two years of the cooling-off period if they have taken on a primary role as a technical specialist in their firms; and
  - The need for transitional provisions relative to the effective date.
9. In December 2016, the IESBA finalised changes to the revised provisions to respond to the PIOB concerns. A close-off document was approved by the IESBA at its December 2016 meeting with the affirmative votes of 15 out of 17 IESBA members present. One IESBA member abstained from the vote and another IESBA member voted against the document.
10. The close-off document has been prepared in accordance with the extant structure and drafting conventions of the IESBA Code. It will be used as a basis for preparing a restructured version in accordance with revised structure and drafting conventions agreed under the project to restructure the Code of Ethics. The formal release of the revised international standard will be in the restructured form.

### **Domestic process**

11. The NZAuASB hosted roundtables on long association proposals in 2014 to solicit feedback from New Zealand stakeholders given the significance of the implications for auditors in New Zealand. The NZAuASB deferred discussions as to whether and what New Zealand amendments may be needed until the proposals were finalised by the IESBA. The NZAuASB signalled its intent to seek feedback on a New Zealand exposure draft at a later stage.
12. The NZAuASB commented to the IESBA on the 2014 exposure draft, broadly supportive of the project, but highlighting concerns with the proposals to extend the cooling off period to five years in a jurisdiction like New Zealand, that is geographically remote with a relatively small pool of licensed auditors.
13. The NZAuASB also sought feedback from New Zealand constituents in response to the limited re-exposure draft. In its submission to the IESBA the Board again raised its concerns with the limited proposals, highlighting the practical challenges in a jurisdiction like New Zealand and recommending that the requirements for PIEs should not distinguish between listed and non-listed PIEs.
14. The NZAuASB developed a New Zealand exposure draft *Proposed Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client* issued in May 2017 based on the close-off document released by the IESBA.

*Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client*

15. The NZAuASB proposed to adopt the revised international requirements but sought additional feedback on the scope of the provisions (i.e., the New Zealand PIE definition), the differences that emerge between New Zealand and Australia, given legislative differences, and the implications for dual listed entities.
16. The NZAuASB proposed to make limited compelling reason changes to the IESBA's close off document including proposals to align the long association requirements for all assurance engagements, whereas the IESBA's close-off document makes a distinction between audits/reviews and other assurance engagements. This is to be consistent with changes made to align the independence requirements for all assurance engagements consistently throughout the Code.
17. The NZAuASB held a webinar during June 2017 to raise awareness of the exposure draft.
18. The NZAuASB also issued Frequently Asked Questions (FAQs) on the XRB website, largely based on the FAQs issued by the IESBA staff, to assist New Zealand constituents better understand the proposals.
19. Staff and the NZAuASB Chair attended the Accounting Professional and Ethical Standards Board (APESB) meeting in Melbourne in August 2017 to observe and share views on the matters raised with Australia.
20. The NZAuASB received eight submissions and one query, from:
  - The big four (3 submissions from KPMG, Deloitte and EY);
  - Chartered Accountants Australia and New Zealand;
  - The NZX;
  - The Office of the Auditor General;
  - Smaller SMPs (2 submissions, 1 query).

**Issues raised by the New Zealand constituency during consultation**

21. The majority of the submissions were supportive of the proposal to adopt the revised long association requirements in order to remain compliant with the international requirements. However, there remains concerns that these requirements could have a negative impact on audit quality, resulting in the contraction of the audit market, and requiring less experienced partners to perform the role of EP or EQCR in order to comply with the more stringent rotation rules.
22. In order to address this risk, the NZAuASB will be meeting with the Financial Markets Authority and exploring whether it is possible and desirable to provide for some exemptions to the more stringent rotation requirements for some entities where there may be unintended consequences (one example identified in the submissions is of a forest during the growth phase of the investment).

23. The majority of submissions all recommended that the New Zealand definition of a PIE be amended to exclude entities that voluntarily report using the tier 1 financial reporting requirements, but that meet the criteria to be able to opt down, referred to as “voluntary PIEs”.
24. The NZAuASB agrees that the New Zealand PIE definition is broader than intended by the IESBA Code and therefore agreed, in principle, to remove “voluntary PIEs” from the New Zealand PIE definition. The NZAuASB intends to issue a follow up exposure draft proposing to amend the PIE definition.
25. The majority of submissions do not support the proposal to align the rotation requirements for other assurance engagements for PIEs with those for audits and review engagements, even though the extant code already does so. While conceptually stakeholders agree that the independence requirements should be the same for all assurance engagements, they query why New Zealand should differ. The NZAuASB however determined that consistent with other compelling reason changes made to PES 1 (Revised) it would be inconsistent for the long association requirements to differ (i.e., the NZAuASB has agreed on a number of occasions to align the independence requirements for all assurance engagements – not to do so for long association would undermine more pervasive changes made to the code). The NZAuASB therefore agreed to align the rotation requirements for all assurance engagements but to issue FAQs to explain how the rotation requirements would apply where the EP performs more than one other assurance engagement within a year.
26. The NZAuASB also agreed to continue discussions with the NZX to monitor developments as the NZX proposes amendments to its listing rules, and possibly to include additional FAQs or other guidance to assist dual listed entities to understand their responsibilities. This is because the Corporations Act 2001 establishes a different rotation regime that would enable listed entities in Australia to defer the mandatory adoption of the revised IESBA requirements. In addition, the NZAuASB will work closely with the APESB in Australia to develop such guidance.

#### **Consistency with XRB Financial Reporting Strategy**

27. The adoption of Amendments to Professional and Ethical Standard 1 (Revised) *Provisions Addressing the Long Association of Personnel with an Assurance Client* is consistent with one of the key strategic objectives set by the XRB Board for the NZAuASB to adopt international auditing and assurance standards, as applying in New Zealand unless there are compelling reasons not to.

#### **Other matters**

28. There are no other matters relating to the issue of this standard that the NZAuASB considers to be pertinent or that should be drawn to your attention.

*Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client*

**Recommendation**

29. The NZAuASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

**Attachments**

*Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client*

*Explanation of Decisions made by the NZAuASB in Finalising the Amendments*

Robert Buchanan

Chair NZAuASB

**AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1 (REVISED)**

**PROVISIONS ADDRESSING THE LONG ASSOCIATION OF PERSONNEL WITH  
AN ASSURANCE CLIENT**

**Explanation of Decisions made by the NZAuASB in Finalising Amendments to  
Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long  
Association of Personnel with an Assurance Client**

**Issued October 2017**

This document relates to, but does not form part of *Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client* which was approved by the NZAuASB in October 2017.

This document is an explanatory document and has no legal status.

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PROFESSIONAL AND ETHICAL STANDARD 1 (REVISED)

PROVISIONS ADDRESSING THE LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

**Explanation of Decisions made by the NZAuASB in Finalising the Amendments**

*Issued by the New Zealand Auditing and Assurance Standards Board*

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## BACKGROUND

1. In August 2014, the International Ethics Standard Board for Accountants (IEBSA) issued an exposure draft *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client* proposing to strengthen the long association provisions that apply to all assurance engagements and increase the mandatory “cooling off” period for the engagement partner on the audit of an entity that is a public interest entity (PIE). The comment period closed in November 2014.
2. In February 2016, the IESBA issued a Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client. The submission period closed in May 2016. This limited re-exposure draft addressed the length of the cooling off period for the engagement quality control reviewer (EQCR) on an audit of a PIE and circumstances where jurisdictions have established different legislative or regulatory safeguards addressing long association.
3. At the same time, the IESBA also issued a basis for conclusions regarding proposals that were exposed as part of the first exposure draft which the IESBA had closed at that stage, including reaffirming that the cooling-off period for the engagement partner on an audit of a PIE should be five years.
4. In September 2016, the IESBA reached agreement on the provisions pertaining to the remaining matters that were included in the re-exposure draft, taking into account respondents’ feedback on the re-exposure draft as well as input from the Consultative Advisory Group. However further amendments were needed to address concerns raised by the Public Interest Oversight Board (PIOB).
5. In December 2016, the IESBA finalised changes to the revised provisions to respond to the PIOB concerns. A close off document was approved by the IESBA at its December 2016 meeting with the affirmative votes of 15 out of 17 IESBA members present. One IESBA member abstained from the vote and another IESBA member voted against the document.
6. The close-off document has been prepared in accordance with the extant structure and drafting conventions of the IESBA Code. It will be used as a basis for preparing a restructured version in accordance with the revised structure and drafting conventions agreed under the project to restructure the Code of Ethics. The formal release of the revised international standard will be in the restructured form.
7. The NZAuASB’s strategic approach is to adopt international standards unless it identifies compelling reasons to modify the international standards for application in New Zealand. This policy is documented in the Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board and to the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code), which is available on the [XRB website](#).

8. The NZAuASB waited until the international process had been completed prior to deliberating on whether there was a need for compelling reason changes to be made in New Zealand. The NZAuASB exposed a New Zealand exposure draft (ED NZAuASB 2017-1) in February 2017. This exposure draft proposed to adopt the revised international requirements in New Zealand. The only compelling reason changes proposed related to continuing to align the requirements for all assurance engagements where the client is a public interest entity, as has been done pervasively throughout section 291 of PES 1 (Revised).
9. A key issue that arose in deliberating on the adoption of the amended requirements was whether the New Zealand PIE definition remained appropriate.
10. This document explains the rationale of the NZAuASB in finalising the New Zealand amendments to the Code of Ethics for Assurance Practitioners.

### **RATIONALE FOR ADOPTING THE INTERNATIONAL REQUIREMENTS**

11. The NZAuASB's strategic approach is to be a standard taker, to adopt the international standards and only, in limited circumstances, to make amendments where there are compelling reasons to do so. Any modification may not result in a standard that conflicts with, or results in lesser requirements than the international standard.
12. The international revisions to the long association provisions are a challenge for an economy the size of New Zealand. The NZAuASB is mindful that the extension of the "cooling off" period will add to supply pressures, especially in the regions and in sectors where there is limited specialist expertise. However, not to adopt the international requirements may have far worse consequences for New Zealand. While some stakeholders urged the NZAuASB not to adopt these revisions, the majority acknowledged and remained supportive of aligning the New Zealand requirements with the revised international requirements.
13. In line with the NZAuASB's strategic approach, the Board agreed to adopt the revisions in New Zealand. The Board however is committed to ensuring that the revisions do not have a negative impact on audit quality and has therefore looked for ways to reduce undue supply constraints.

### **RATIONALE FOR THE DEFINITION OF A PUBLIC INTEREST ENTITY IN NEW ZEALAND**

14. The international Code of Ethics defines PIEs as:
  - a. all listed entities; and
  - b. any entity:
    - i. defined by regulation or legislation as a public interest entity; or
    - ii. for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

15. The IESBA has the expectation that national standard setters will adopt a definition that is appropriate for their jurisdiction.
16. The International Code also states that:

“Firms and member bodies are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

  - a. The nature of the business, such as holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;
  - b. Size; and
  - c. Number of employees.
17. The definition of a PIE is significant because it determines which independence requirements an auditor is required to apply. The independence requirements are more stringent where the auditor is engaged to conduct an assurance engagement for an entity that is a PIE.
18. When the NZAuASB decided to revise PES 1 to align more closely with the IESBA Code in 2012, the NZAuASB sought feedback about and deliberated on the appropriate definition of a PIE in the New Zealand context. The NZAuASB decided to align the definition of a PIE with all those entities that report using the tier 1 financial reporting requirements as per the accounting standards framework. The XRB had determined and included entities in tier 1 based on whether or not such an entity was considered to have public accountability. The XRB had performed a cost benefit analysis to identify tier 1 entities. Publicly accountable entities are required to apply the highest financial reporting requirements. It was therefore agreed that it was appropriate and in the public interest that the auditor of such entities apply the most stringent independence criteria.
19. The amendments to the long association requirements again brought up the discussion as to whether the New Zealand PIE definition remains fit for purpose. The Board received feedback from the majority of stakeholders that the New Zealand PIE definition is considered to be too broad.
20. As a result, the NZAuASB has developed a second exposure draft proposing to slightly amend the New Zealand PIE definition to exclude entities that do not meet the criteria set out in XRB A1, i.e., who are not considered to have public accountability, but yet elect to report using the accounting requirements that apply to such entities. More information about this amendment can be found in ED NZAuASB 2017-3.
21. The NZAuASB, however still considers that all entities that have been determined to have public accountability, and are required to (rather than elect to) report using the tier 1 financial reporting requirements, should be caught within the New Zealand PIE definition.
22. The NZAuASB does not consider that this approach is broader than the intent of the IESBA Code, or with the approaches adopted in other jurisdictions. While the IESBA Code defined a PIE with respect to listed entities, it expects that each jurisdiction will

determine the appropriate definition, bearing in mind that the IESBA Code also indicates what other types of entities should be encouraged to be PIEs. These include entities that hold assets in a fiduciary capacity like banks, insurance companies, pension schemes and other entities caught by the definition of a FMC reporting entity considered to have a higher level of public accountability. This also covers entities that have a large number and wide range of stakeholders, and raises size as a factor to consider. The size criteria in XRB A1 have been determined based on a cost/benefit analysis of the New Zealand market.

23. The NZAuASB is mindful that the revisions do raise supply challenges for the New Zealand market, but still considers that the New Zealand PIE definition remains appropriate and is consistent with the principles established in the international code.
24. The NZAuASB will continue to work through ways in which supply issues can be addressed.

### **RATIONALE FOR COMPELLING REASON TO ALIGN THE LONG ASSOCIATION REQUIREMENTS FOR ALL ASSURANCE ENGAGEMENTS**

25. When the NZAuASB adopted the international Code in New Zealand in 2013 it was agreed that section 291, the independence section that applies to assurance engagements other than audits or reviews of financial statements, should be tightened in New Zealand to align the requirements for these other engagements with the requirements for audits and reviews. The IESBA Code has no PIE requirements with respect to other assurance engagements.
26. The NZAuASB **was** of the view that the threats to independence do not differ when the subject matter of the engagement are financial statements or another subject matter. The NZAuASB was of the view that these prohibitions are appropriate for other assurance clients, if they are public interest entities. Prohibiting such services in these circumstances is appropriate to maintaining independence, given the high level of interest in a public interest entity. For this reason, a number of PIE requirements were included in section 291 in New Zealand, including but not limited to the long association requirements that established a 7 year time on and at that stage a 2 year cooling off period.
27. Now that the long association PIE requirements have been amended for audits and review engagements in the IESBA code, to be consistent with the view that the independence requirements should be consistent for all assurance engagements, the NZAuASB proposed to amend the New Zealand paragraphs previously included in PES 1 (Revised).
28. Stakeholders agreed that conceptually the independence requirements should be the same, but queried whether the compelling reason test had been met and the majority were opposed to these changes.
29. The NZAuASB is of the view that consideration of whether the PIE requirements should align across all assurance engagements is outside the scope of the project to adopt the revised long association requirements.

30. Consistent with its previous decision to make the independence requirements consistent for all assurance engagements, the NZAuASB decided to include the revised sections from section 290 in section 291 in order to remain consistent with its previous position. The Board will consider whether there remains a compelling reason to align the independence requirements across all assurance engagements as a separate project.

31. The Board agreed to develop additional FAQs to address some implementation queries raised in response to the exposure draft.

DRAFT

## What are the differences between the rotation requirements in New Zealand and Australia?

Both New Zealand and Australia will adopt the revised international long association requirements. The way in which these rules apply will however differ because of requirements established by other regulators.

In New Zealand the NZX Listing Rules currently require that the external auditor or lead audit partner is changed at least every five years. There are no additional requirements related to the cooling off period.

In Australia s324DA of the Corporations Act 2001 has more restrictive rotation requirements for auditors of listed entities in Australia. Those individuals that play a significant role in the audit of a listed entity are required by the Corporations Act 2001 to rotate off every 5 years and are required to stay away for at least 2 successive financial years. Similar requirements have also been included in APRA regulations. (APRA Prudential Standards CPS 510 Governance (July 2017) and SPS 510 Governance (July 2017))

As a result of requirements established outside of the Code of Ethics the following differences will emerge between Australia and New Zealand for listed entities and those subject to APRA regulations, because paragraph 290.163 will have effect in Australia:

Role	NZ Code with NZX Listing requirements in years		Australian Code with the Corporations Act 2001 pre-2023 in years		Australian Code with Corporations Act 2001 post 2023 in years <sup>1</sup>	
	Time-on	Cooling off	Time-on	Cooling off	Time-on	Cooling off
EP	5	5	5	3	5	5
EQCR	7	3	5	3	5	3

## What are the rotation requirements for auditors of dual listed entities?

[Still under development]

## What are the implications for assurance engagements that recur but are only performed every other year?

The independence requirements have been aligned in New Zealand so that the same rotation requirements apply regardless of the subject matter. However assurance

<sup>1</sup> If the Corporations Act 2001 retains the requirement for a five year time-on period.

engagements other than audits or reviews of historical financial information may not recur annually the way in which audits of financial statements do.

The question that arises is how the time on period applies where the engagement occurs less frequently than annually. NZ291.141.1 clarifies that the time on period is limited to a maximum of seven cumulative years, rather than seven consecutive years.

For example, what if the assurance engagement occurs every second year. The following table illustrates an example showing how the time on period would apply in the case of an assurance engagement that recurs every second year of a public interest entity where "X" represents a year in which the engagement did not occur.

<b>Yr 1</b>	<b>Yr 2</b>	<b>Yr 3</b>	<b>Yr 4</b>	<b>Yr 5</b>	<b>Yr 6</b>	<b>Yr 7</b>	<b>Yr 8</b>	<b>Yr 9</b>	<b>Yr 10</b>	<b>Yr 11</b>	<b>Yr 12</b>	<b>Yr 13</b>	<b>Yr 14</b>	<b>Cooling off period</b>
EP	X	EP	X	EP	X	EP	X	EP	X	EP	X	EP	X	5 consecutive years off at the end of year 13

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	5.1
<b>Meeting date:</b>	25 October 2017
<b>Subject:</b>	Public interest entity definition
<b>Date:</b>	29 September 2017
<b>Prepared by</b>	Misha Pieters

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

To:

- APPROVE the invitation to comment.

### Background

1. At the September Board meeting, the NZAuASB agreed to develop an exposure draft proposing to exclude entities that do not meet the criteria in XRB A1 but that elect to report using the tier 1 accounting requirements within the New Zealand definition of a public interest entity (PIE).
2. The Board tentatively agreed a way in which to amend the definition but requested staff to also consult with the accounting standards team prior to progressing the development of an invitation to comment.
3. The accounting standards team and chair of the NZASB are comfortable with the proposal to exclude “voluntary PIEs”. However, as a result of these discussions, the proposed wording has been amended as outlined in the exposure draft in agenda item 5.2.

### Action required

We ask the board to Approve the draft invitation to comment.

### Material Presented

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Invitation to comment



## **EXPOSURE DRAFT NZAuASB 2017-3**

### **PROPOSED AMENDMENTS TO THE DEFINITION OF A PUBLIC INTEREST ENTITY**

**(ED NZAuASB 2017-3)**

**Invitation to Comment**

October 2017

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External Reporting Board  
PO Box 11250  
Manners St Central, Wellington 6142  
New Zealand  
<http://www.xrb.govt.nz>

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# Information for Respondents

## Invitation to Comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)<sup>1</sup> is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising amendments to the definition of a public interest entity.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

Chief Executive  
External Reporting Board  
PO Box 11250  
Manners St Central  
Wellington 6142  
New Zealand

Email: [submissions@xrb.govt.nz](mailto:submissions@xrb.govt.nz)  
(please include the title of the Exposure Draft in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is **27 November 2017**.

## Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website ([xrb.govt.nz](http://xrb.govt.nz)), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

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<sup>1</sup> The NZAuASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting auditing and assurance, including professional and ethical, standards.

# List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IESBA	International Ethics Standard Board for Accountants
IFRS	International Financial Reporting Standards
ITC	Invitation to comment
NZAuASB	New Zealand Auditing and Assurance Standards Board of the External Reporting Board
PES	Professional and Ethical Standard
PIE	Public Interest Entity

## Questions for Respondents

1. Do you agree with the proposal to amend the New Zealand definition of 'a public interest entity' so that "voluntary" PIEs are no longer automatically caught within the public interest entity definition?
2. Do you agree with the proposed effective date? If not, why not, and what alternative do you propose?

# 1. Introduction

## 1.1 Purpose of this Invitation to Comment

1. The purpose of this ITC is to seek comments on proposed amendments to the definition of a Public Interest Entity (PIE) in New Zealand as described in ED NZAuASB 2017-3 *Proposed Amendments to the Definition of a Public Interest Entity* (the ED).

## 1.2 Reason for issuing this exposure draft

2. In May 2017, the NZAuASB issued an exposure draft ED 2017-1<sup>2</sup>, proposing to amend the long association requirements in PES 1 (Revised).<sup>3</sup> As part of this consultation, the NZAuASB sought feedback to inform its understanding of entities that elect, but are not required, to apply the tier 1 financial reporting requirements. This ITC refers to such entities as “voluntary PIEs”.
3. Almost all submissions received in response to ED 2017-1 raised concerns that including voluntary PIEs within the New Zealand PIE definition was not in the public interest and indicated possible unintended consequences of doing so. Submitters were strongly in favour of excluding “voluntary” PIEs from the New Zealand PIE definition.
4. The feedback received provided further information about the reasons why an entity may voluntarily elect to adopt the tier 1 requirements. The NZAuASB therefore now considers that excluding such entities from the New Zealand PIE definition is in the public interest.
5. This exposure draft seeks feedback on the proposed amendment to the definition of a PIE to exclude “voluntary” PIEs.

## 1.3 Timeline and next steps

6. Submissions on ED NZAuASB 2017-3 are due by **27 November 2017**. Information on how to make submissions is provided on page 3 of this ITC. The NZAuASB considers that a 30-day consultation period is appropriate, given that this matter was explored in ED NZAuASB 2017-1, the proposals are consistent with the feedback received in response to that ED and due to the limited nature of the proposed amendment.
7. The NZAuASB will consider the submissions received immediately after the consultation period ends.
8. The NZAuASB proposes that the amendment to the definition of public interest entity will be effective on 15 December 2018, to align with the proposed changes to the long association requirements.

# 2. Overview of ED NZAuASB 2017-3

9. The international Code of Ethics defines PIEs as
  - a) all listed entities; and

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<sup>2</sup> ED NZAuASB 2017 -1 *Proposed Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client*

<sup>3</sup> PES 1 (Revised), Code of Ethics for Assurance Practitioners

- b) any entity:
- i. defined by regulation or legislation as a public interest entity; or
  - ii. for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

The IESBA has the expectation that national standard setters will adopt a definition that is appropriate for their jurisdiction.

10. The International Code also states that:

"Firms and member bodies are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;
- Size; and
- Number of employees.

11. The definition of a PIE is significant because it determines which independence requirements an auditor is required to apply. The independence requirements are more stringent where the auditor is engaged to conduct an assurance engagement for an entity that is a PIE. These more stringent requirements impact on:<sup>4</sup>

- the provision of various non-assurance services;
- employment with an audit client; and
- the long association requirements.

12. When the NZAuASB decided to revise PES 1 to align more closely with the IESBA Code in 2012, the NZAuASB sought feedback about and deliberated on the appropriate definition of a PIE in the New Zealand context. The NZAuASB decided to align the definition of a PIE with all those entities that report using the tier 1 financial reporting requirements as per the accounting standards framework.<sup>5</sup> The XRB had determined and included entities in tier 1 based on whether or not such an entity was considered to have public accountability. The XRB had performed a cost benefit analysis to identify tier 1 entities. Publicly accountable entities are required to apply the highest financial reporting requirements. It was therefore agreed that it was appropriate and in the public interest that the auditor of such entities apply the most stringent independence criteria.

13. At that time, the NZAuASB was in favour of applying the stricter independence requirements to all entities that are required *or that elect* to apply the tier 1 accounting requirements. The NZAuASB considered that if an entity held itself out to apply the highest requirements, the auditor should similarly be held to the highest standards.

14. However, in response to the ED NZAuASB 2017 -1, almost all respondents did not consider that including "voluntary" PIEs within the New Zealand PIE definition was in the public interest.

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<sup>4</sup> A summary of the prohibitions that apply to PIEs is available on the [IFAC website](#).

<sup>5</sup> Further background information can be found in the "[Explanation of Decisions made by the NZAuASB in finalising PES 1](#)" document on the XRB website.



15. Entities choose to apply the tier 1 financial reporting requirements for various reasons. These include:
  - Ease of reporting to parent entities;
  - Compliance with an incorporation/formation document;
  - Meeting group reporting requirements;
  - Allowing greater comparison with both national and international competitors;
  - Expecting to ultimately be in a position where tier 1 reporting will be mandatory and do not wish to transition;
  - Believing tier 1 reporting requirements produce a better set of financial statements.
16. An unintended consequence of including "voluntary" PIEs in the definition of a public interest entity may be a reduction in the quality of financial reporting, in that an entity that may otherwise apply the tier 1 reporting requirements is instead applying the tier 2 requirements. In these cases, the independence rules for the auditor have impacted on the accounting requirements selected by the preparer. Entities have been penalised by their choice to prepare better quality financial reports.
17. "Voluntary" PIEs do not have the same characteristics as those entities that are required to apply the tier 1 requirements, that is, they do not have public accountability in fact, and therefore the impact of their activities on the public interest is decreased.
18. The NZAuASB is a standard taker and therefore adopts the international standards. The NZAuASB will only make limited amendments to those international standards where there is a compelling reason to do so. Upon further deliberation, the NZAuASB does not consider that the compelling reason test has been met and therefore proposes to exclude "voluntary" PIEs from the New Zealand PIE definition. Including "voluntary" PIEs broadens the New Zealand definition beyond the guidance and the intention of the IESBA Code. In other jurisdictions, there will be entities that apply full IFRS but that are not defined as a PIE. Including "voluntary" PIEs results in the New Zealand definition being broader than in other jurisdictions and including entities that are not captured by the intent of the international requirements.
19. Accordingly, the NZAuASB believes that it is appropriate and responsive to concerns expressed to revise the definition of public interest entity in New Zealand to exclude "voluntarily" PIEs from the definition.



**NZ AUDITING  
AND ASSURANCE  
STANDARDS BOARD**

**EXPOSURE DRAFT NZAUASB 2017-3  
PROPOSED AMENDMENTS TO THE DEFINITION OF A PUBLIC INTEREST ENTITY**

**CONTENTS**

**A: INTRODUCTION**

**B: PROPOSED AMENDMENTS TO THE DEFINITIO OF A PUBLIC  
INTEREST ENTITY**

**C: EFFECTIVE DATE**

## **A: INTRODUCTION**

This document sets out proposed amendments to the definition of ‘public interest entity’ in Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*. Amended paragraphs are shown with new text underlined and deleted text struck through.

# B: PROPOSED AMENDMENTS TO THE DEFINITION OF A PUBLIC INTEREST ENTITY

## B.1 PES 1 (Revised) Code of Ethics for Assurance Practitioners

### DEFINITION

[NZ] Public interest entity      Any entity that meets the Tier 1 criteria in accordance with XRB A1<sup>1</sup> and is not eligible to report in accordance with the accounting requirements of another tier is required or opts to prepare financial statements to comply with Tier 1 For profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1.

<sup>1</sup> XRB A1 Application of the Accounting Standards Framework

NZ290.25 Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that have public accountability, are deemed to have public accountability or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:

- Any entity that meets the Tier 1 criteria in accordance with XRB A1<sup>6</sup> and is not eligible to report in accordance with the accounting requirements of another tier required or opts to prepare financial statements to comply with Tier 1 For profit Accounting Requirements or Tier 1 PBE<sup>7</sup> Accounting Requirements in accordance with XRB A1<sup>8</sup>.

NZ291.3.1 Section 291 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that have public accountability, are deemed to have public accountability or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:

- Any entity that meets the Tier 1 criteria in accordance with XRB A1<sup>9</sup> and is not eligible to report in accordance with the accounting requirements of another tier required or opts to prepare financial statements to comply with Tier 1 For profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1<sup>10</sup>.

## B.2 PES 3 (Amended) Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements

### Definitions

[NZ12.7] Public interest entity - Any entity that meets the Tier 1 criteria in accordance with XRB A1 and is not eligible to report in accordance with the accounting

<sup>6</sup> XRB A1 Application of the Accounting Standards Framework.

<sup>7</sup> Public Benefit Entity

<sup>8</sup> ~~XRB A1 Application of the Accounting Standards Framework.~~

<sup>9</sup> XRB A1 Application of the Accounting Standards Framework.

<sup>10</sup> ~~XRB A1 Application of the Accounting Standards Framework.~~

~~requirements of another tier required or opts to prepare financial statements to  
comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE  
Accounting Requirements in accordance with XRB A1.~~

## **C: EFFECTIVE DATE**

The revised definition of a ‘public interest entity’ and related changes will be effective on **15 December 2018**.

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	6.1
<b>Meeting date:</b>	25 October 2017
<b>Subject:</b>	Structure of the Code – NZ paragraphs in PES 1 (Revised)
<b>Date:</b>	12 October 2017
<b>Prepared by:</b>	Sharon Walker

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<input checked="" type="checkbox"/>	<b>Action Required</b>	<input type="checkbox"/>	<b>For Information Purposes Only</b>
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### Agenda Item Objectives

1. The objective for this agenda item is:
  - For the Board to CONSIDER and AGREE the compelling reason amendments previously made to Professional and Ethical Standard 1 (Revised), *Code of Ethics for Assurance Practitioners*, remain appropriate.

### Background

2. At its September 2017 the Board considered the proposed NZ marked text of Phase 1 of the restructured Code of Ethics. The marked text included changes necessary to reflect New Zealand terminology and New Zealand compelling reason amendments previously made by the Board.
3. We were directed to consider the existing compelling reason changes to Professional and Ethical Standard 1 (Revised) PES 1 (Revised)), *Code of Ethics for Assurance Practitioners*, and challenge whether those compelling reason changes continue to be appropriate. The analysis of the compelling reason changes is included in agenda item 6.2.
4. The objective of the Structure project is to improve the understandability and usability of the Code by restructuring it without changing its meaning, except in limited circumstances where determined necessary by the IESBA.

### Matters for Consideration

5. The NZAuASB is asked to CONSIDER and AGREE that the compelling reason amendments previously made to PES 1 (Revised) remain appropriate.

**Material Presented**

Agenda item 6.1

Agenda item 6.2

Board Meeting Summary Paper

Compelling Reason Amendments



*Agenda Item 6.2: Issues Paper – Structure of the Code*

**NZ paragraphs in PES 1 (Revised)**

1. The following tables present the wording of the Code along with the compelling reason for making a change to the IESBA Code in New Zealand. The specific paragraph wording is included to provide context for the compelling reason.
2. With the exception of the NZ changes made to Section 225, *Noncompliance with Laws and Regulations*, and the provisions pertaining to Long Association, the NZ changes were made prior to the implementation of the Compelling Reason Test.
3. The compelling reason test requires the NZAuASB to consider the following prior to making changes to the international standards:
  - The rationale for the proposed modification – either:
    - i. The international standard is not consistent with NZ regulatory arrangements; or
    - ii. The international standard does not reflect, or is not consistent with, principles and practices that are considered appropriate in NZ.
  - Where the international standard is not consistent with NZ regulatory requirements, whether:
    - i. The standard can be modified so as to result in a standard the application of which results in effective and efficient compliance with the legal framework in NZ; and
    - ii. The modification does not result in a standard that conflicts with, or results in lesser requirements than the international standard.
  - Where the international standard does not reflect principles and practices that are considered appropriate in NZ, whether:
    - i. The application of the proposed modification will result in compliance with principles and practices considered appropriate by the NZAuASB;
    - ii. The proposed modification results in a standard that is clear and promotes consistent application by all practitioners (for example, excluding options that are not relevant in NZ and Australia);
    - iii. The proposed modification will promote significant improvement in audit quality in NZ (improvement in audit quality is linked to one or more of the applicable elements in the IAASB’s Framework for Audit Quality);
    - iv. The relative benefits outweigh the cost (cost being compliance cost and the cost of differing from the international standard; benefit relating to

audit quality);

- v. The proposed modification does not conflict with or result in lesser requirements than the international standard;
- vi. The proposed modification does not result in the standard being overly complex and confusing; and
- vii. The proposed modification does not inadvertently change the meaning of the ISA wording by placing more onerous requirements on a practitioner in NZ than is necessary to meet the intent of the ISA.

4. We believe that the compelling reason amendments meet the compelling reason test and remain appropriate, based on the extant Code.

Does the Board agree that each of the NZ changes made are still appropriate?

Does the Board desire that a compelling reason form be completed for each of the amendments made?

<b>PART A—FUNDAMENTAL PRINCIPLES</b> <b>SECTION 140</b> <b>Confidentiality</b>	<b>Compelling reason for amendment</b>
<p>140.7 The following are circumstances where assurance practitioners are or may be required to disclose confidential information or when such disclosure may be appropriate:</p> <ul style="list-style-type: none"> <li>(a) Disclosure is permitted by law and is authorised by the client;</li> <li>(b) Disclosure is required by law, for example: <ul style="list-style-type: none"> <li>(i) Production of documents or other provision of evidence in the course of legal proceedings; or</li> <li>(ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and</li> </ul> </li> <li>(c) There is a professional duty or right to disclose, when not prohibited by law: <ul style="list-style-type: none"> <li>(i) To comply with the quality review of a professional body;</li> <li>(ii) To respond to an enquiry or investigation by a professional body or regulatory body;</li> <li>(iii) To protect the professional interests of an assurance provider in legal proceedings; or</li> <li>(iv) To comply with technical standards and ethics requirements.</li> </ul> </li> </ul>	<p>Paragraph provided for context</p>
<p>NZ140.7.1 The circumstances in paragraph 140.7 do not take into account New Zealand legal and regulatory requirements. An assurance practitioner considering disclosing confidential information about a client without their consent is advised to first obtain legal advice.</p>	<p>Paragraph NZ 140.7.1 is added to section 140 to remind assurance practitioners that the International Code does not take into account NZ legal and regulatory requirements and that they should consider the NZ legal and regulatory requirements before disclosing confidential information. A similar paragraph is included in the Australian Code.</p>

SECTION 220 Conflicts of Interest	Compelling reason for amendment
<p>NZ220.10.1 Where an assurance practitioner has a conflict of interest but can apply safeguards to eliminate the threat or reduce it to an acceptable level, the assurance practitioner shall disclose the nature of the conflict of interest and the related safeguards, if any, to all clients or potential clients affected by the conflict. When safeguards are required to reduce the threat to an acceptable level, the assurance practitioner shall obtain the client’s consent to the assurance practitioner performing the assurance services.</p>	<p>More stringent requirement than IESBA Code requiring the disclosure of the nature of a conflict of interest and related safeguards, if any, to all clients or potential clients affected by a conflict. Replaces the first paragraph of 220.11.</p> <p>Managing conflicts of interest in a small country like NZ is inevitable and has resulted in more stringent requirements than the IESBA Code. Practice has emerged to address these conflicts through the OAG and guidance issued by the IOD. NZ’s best practice has been added to PES 1(Revised) which the NZAuASB believes to be appropriate in the NZ context for assurance engagements, and which will promote improvement in audit quality.</p>
<p>220.11 <del>In addition, it is generally necessary to disclose the nature of the conflict of interest and the related safeguards, if any, to clients affected by the conflict and, when safeguards are required to reduce the threat to an acceptable level, to obtain their consent to the professional accountant in public practice performing the professional services.</del></p>	<p>This wording in the IESBA Code is provided for context only. Replaced by NZ220.10.1</p>
<p>220.11 [Amended by the NZAuASB. Refer to NZ220.10.1].</p>	
<p>NZ220.11 Disclosure and consent may take different forms, for example:</p> <ul style="list-style-type: none"> <li>• General disclosure to clients of circumstances where the assurance practitioner, in keeping with common commercial practice, does not provide services</li> </ul>	<p>Changes to this paragraph relate to the addition of NZ220.10.1. The first paragraph has been deleted and replaced with NZ220.10.1.</p>

<p>exclusively for any one client (for example, in a particular service in a particular market sector) in order for the client to provide general consent accordingly. Such disclosure might, for example, be made in the assurance practitioner's standard terms and conditions for the engagement.</p> <ul style="list-style-type: none"> <li>• Specific disclosure to affected clients of the circumstances of the particular conflict, including a detailed presentation of the situation and a comprehensive explanation of any planned safeguards and the risks involved, sufficient to enable the client to make an informed decision with respect to the matter and to provide explicit consent accordingly.</li> <li>• In certain circumstances, consent may be implied by the client's conduct where the assurance practitioner has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.</li> </ul> <p>The assurance practitioner shall determine whether the nature and significance of the conflict of interest is such that specific disclosure and explicit consent is necessary. For this purpose, the assurance practitioner shall exercise professional judgement in weighing the outcome of the evaluation of the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.</p>	
<p>220.14 [Deleted by the NZAuASB. Refer to NZ220.14].</p>	<p>The IESBA Code permits the firm to continue the engagement when certain conditions are met. Under the revised NZ requirements, the</p>

	assurance practitioner is required to withdraw or resign from the assurance engagement. See paragraph NZ220.14
<p>NZ220.14 In those circumstances where adequate disclosure is not possible by reason of constraints of confidentiality the assurance practitioner shall withdraw or resign from the relevant assurance engagement.</p>	<p>Managing conflicts of interest in a small country like NZ is inevitable and has resulted in more stringent requirements than the IESBA Code. Practice has emerged to address these conflicts through the OAG and guidance issued by the IOD. NZ's best practice has been added to PES 1(Revised) which the NZAuASB believes to be appropriate in the NZ context for assurance engagements, and which will promote improvement in audit quality.</p>

<b>SECTION 225</b>  <b>Responding to Non-Compliance with Laws and Regulations</b>  <i>Communicating the Matter to the Entity's External Auditor</i> <sup>#</sup> [Phase 2 of the structure project]	<b>Compelling reason for amendment</b>
<p>NZ225.17.1     If the assurance practitioner is performing a non-audit service for an audit client of the firm, or a component of an audit client the assurance practitioner shall communicate non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.</p>	<p>The requirements in section 225 have been expanded to cover all assurance engagements in New Zealand, in particular reviews of financial statements. It is in the public interest for the assurance practitioner to respond in the same manner to identified or suspected non-compliance with laws and regulations (NOCLAR) regardless of whether they were engaged to audit or review the financial statements.</p> <p>Further, in line with previous decisions, it is appropriate in New Zealand for all engagements to follow the same framework for dealing with NOCLAR regardless of whether the subject matter of the engagement is financial statements or some other subject specific matter. These more rigorous requirements enhance the quality of the assurance practitioner's response to NOCLAR and are more consistent with the requirements of the other assurance standards and the expectations of the users of assurance reports.</p>
<p>NZ225.17.2     If the assurance practitioner is performing a non-audit service for an audit client of a network firm, or a component of an audit client of a network firm, the assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.</p>	

<sup>#</sup> Paragraphs NZ225.17.1-5 have been moved and amended by the NZAuASB from paragraphs 225.44 to 48 of the IESBA Code.

NZ225.17.3 If the assurance practitioner is performing a non-audit service for a client that is not:

- (a) An audit client of the firm or a network firm; or
- (b) A component of an audit client of the firm or network firm,

the assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external auditor, if any.

NZ225.17.4 Factors relevant to considering the communication in accordance with paragraphs NZ225.17.2 and NZ225.17.3 include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the entity's external auditor about the matter.
- The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.



NZ225.17.5 In all cases, the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how it should be addressed in accordance with the provisions of this section.

*Communication with Respect to Groups*

225.21 [Amended by the NZAuASB].

NZ225.21.1 An assurance practitioner may:

- (a) For purposes of an audit of group financial statements, be requested by the group engagement team to perform work on financial information related to a component of the group; or
- (b) Be engaged to perform an audit or review of a component's financial statements for purposes other than the group audit, for example, a statutory audit.

Where the assurance practitioner becomes aware of non-compliance or suspected non-compliance in relation to the component in either situation, the assurance practitioner shall, in addition to responding to the matter in accordance with the provisions of this section, communicate it to the group engagement partner unless prohibited from doing so by law or regulation. This is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how it should be addressed in accordance with the provisions in this section.

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225.22 [Amended by the NZAuASB].

NZ225.22.1 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, including as a result of being informed of such a matter in accordance with paragraph 225.21, the group engagement partner shall, in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section, consider whether the matter may be relevant to one or more components:

- (a) Whose financial information is subject to work for purposes of the audit of the group financial statements; or
- (b) Whose financial statements are subject to audit or review for purposes other than the group audit, for example, a statutory audit.

If so, the group engagement partner shall take steps to have the non-compliance or suspected non-compliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation. If necessary in relation to subparagraph (b), appropriate enquiries shall be made (either of management or from publicly available information) as to whether the relevant component(s) is subject to audit or review and, if so, to ascertain to the extent practicable the identity of the auditor. The communication is to enable those responsible for work at such components to be informed about the matter and to determine whether and, if so, how it should be addressed in accordance with the provisions in this section.

*Documentation*

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NZ225.38.1 International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ)) and International Standard on Review Engagements (New Zealand) (ISRE (NZ)) require an assurance practitioner performing an assurance engagement to:

- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions;
- Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.

225.39 – 225.56[Deleted by the NZAuASB].

SECTION 230	Compelling reason for amendment
<p>230.1 [Deleted by the NZAuASB].</p> <p>230.2 [Deleted by the NZAuASB].</p> <p>230.3 [Deleted by the NZAuASB].</p>	<p>Section 230 is deleted by the NZAuASB as it is not related to the performance of an assurance engagement. Second opinions relate to situation in which a professional accountant in public practice is asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client.</p>

<b>SECTION 240</b> <b>Fees and Other Types of Remuneration</b>	<b>Compelling reason for amendment</b>
<p>240.5 <del>In certain circumstances, a professional accountant in public practice may receive a referral fee or commission relating to a client. For example, where the professional accountant in public practice does not provide the specific service required, a fee may be received for referring a continuing client to another professional accountant in public practice or other expert. A professional accountant in public practice may receive a commission from a third party (for example, a software vendor) in connection with the sale of goods or services to a client. Accepting such a referral fee or commission creates a self-interest threat to objectivity and professional competence and due care.</del></p>	<p>[Deleted by the NZAuASB. Refer to NZ240.9].</p>
<p>240.6 <del>A professional accountant in public practice may also pay a referral fee to obtain a client, for example, where the client continues as a client of another professional accountant in public practice but requires specialist services not offered by the existing accountant. The payment of such a referral fee also creates a self-interest threat to objectivity and professional competence and due care.</del></p>	<p>[Deleted by the NZAuASB. Refer to NZ240.9].</p>
<p>240.7 <del>The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</del></p>	<p>[Deleted by the NZAuASB. Refer to NZ240.9].</p>

<ul style="list-style-type: none"> <li>● <del>Disclosing to the client any arrangements to pay a referral fee to another professional accountant for the work referred;</del></li> <li>● <del>Disclosing to the client any arrangements to receive a referral fee for referring the client to another professional accountant in public practice; or</del></li> <li>● <del>Obtaining advance agreement from the client for commission arrangements in connection with the sale by a third party of good or services to the client.</del></li> </ul>	
<p>240.8 An assurance practitioner may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraphs NZ240.9 below.</p>	<p>Included for context</p>
<p>NZ240.9 The receipt or payment of referral fees, commissions or other similar benefits in connection with an assurance engagement creates a threat to independence that no safeguards could reduce to an acceptable level. Accordingly, an assurance practitioner shall not accept such a fee arrangement in respect of an assurance engagement.</p>	<p>The NZAuASB considers that payment of referral fees is a significant threat to independence that no safeguards can overcome. This differs from the IESBA Code which requires an assurance practitioner to evaluate the threat and to apply safeguards to eliminate the threat or reduce it to an acceptable level.</p> <p>This has similarly been added to the Australian Code.</p>

<b>SECTION 290</b> <b>INDEPENDENCE—AUDIT AND REVIEW ENGAGEMENTS</b>	<b>Compelling reason for amendment</b>
<b>Structure of Section</b>	
<p>290.1 This section addresses the independence requirements for audit engagements and review engagements, which are assurance engagements in which an assurance practitioner expresses a conclusion on financial statements. Such engagements comprise audit and review engagements to report on a complete set of financial statements and a single financial statement. Independence requirements for assurance engagements that are not audit or review engagements of financial statements or a single financial statement are addressed in Section 291.</p>	<p>Included for context</p>
<p>NZ290.1.1 This section also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.</p>	<p>PES 1 (Revised) extends the scope of Section 290 to cover all assurance engagements in relation to an offer document of an issuer in respect of historical financial information, prospective or pro-forma information or a combination of these.</p> <p>The NZAuASB is of the view that this amendment is necessary to promote audit quality. The nature of assurance provided where the subject matter is prospective information included in any offer document of an issuer, and the importance of those services to the broader public interest, warrant the same level of independence as an assurance engagement over historical financial information.</p>
<b>A Conceptual Framework Approach to Independence</b>	
<p>290.11 Throughout this section, reference is made to the significance of threats to independence. In evaluating the significance of a</p>	<p>Included for context</p>

<p>threat, qualitative as well as quantitative factors shall be taken into account.</p>	
<p>NZ290.11.1 Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.</p>	<p>The requirement to evaluate multiple threats to independence identified in aggregate, which individually may not be significant, is not explicitly required by the IESBA Code. The NZAuASB is of the view that there is a compelling reason to explicitly state this as it provides clarity to assurance practitioners on how to appropriately consider and evaluate the threat of independence which is one of the fundamental principles of the Code.</p>
<p><b>Public Interest Entities</b></p>	
<p>290.25 [Amended by the NZAuASB. Refer to NZ290.25].</p>	
<p>NZ290.25 Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that have public accountability, are deemed to have public accountability or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:</p> <ul style="list-style-type: none"> <li>Any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE<sup>1</sup> Accounting Requirements in accordance with XRB A1<sup>2</sup>.</li> </ul>	<p>The NZAuASB acknowledges that defining a public interest entity as all Tier 1 entities per the accounting standards framework will result in a much broader application of the stricter public interest entity requirements. This would therefore promote significant improvement in audit quality to all Tier 1 entities. Entities are included in Tier 1 based on accountability. The XRB has determined that all Tier 1 entities are required to meet the highest financial reporting requirements.</p> <p>The NZAuASB considers that it is appropriate to delete and replace the definition of public interest entity in paragraph 290.25 as drafted</p>

<sup>1</sup> Public Benefit Entity

<sup>2</sup> XRB A1 *Application of the Accounting Standards Framework*.



		by the IESBA as this paragraph would be inconsequential in New Zealand.
<b>Serving as a Director or Officer of an Audit or Review Client</b>		
290.144	[Amended by the NZAuASB. Refer to NZ290.144].	
NZ290.144	If a partner or employee of the firm serves as a director or officer of an audit or review client, or as a liquidator or receiver in respect of the property of the client, or in a similar role, the self-review and self-interest threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Accordingly, no partner or employee shall serve as a director, officer, liquidator or receiver of an audit or review client.	The IESBA Code has a similar provision but only in respect of a partner or employee serving as a director or officer of an assurance client. The change to extend the prohibition of undertaking assurance services where the partner or employee of the firm serves as a liquidator or receiver of the property of the entity or a similar role is consistent with legislative requirements in New Zealand and therefore a compelling reason to include in PES 1 (Revised).
<b>Long Association (replaced by new section)</b>		
<b>Fees</b>		
<i>Fees—Relative Size</i>		
NZ290.215.1	When appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the assurance practitioner shall decline or withdraw from the engagement.	The NZAuASB considers the relative size of fees is a significant threat to independence. The NZAuASB dismissed the option of establishing a prohibition on acting as the audit firm if a predefined level of annual fee income is exceeded, as done in other jurisdictions, as this may not address every circumstance. The NZAuASB supports the application of the conceptual framework to address the threat, with emphasis that

<p>[To be considered in Phase 2. May need to consider revision of wording to address the new safeguards approach]</p>	<p>this is a significant threat that must be appropriately managed and therefore has emphasized that it is not always possible to mitigate the threats using safeguards, and that the engagement may need to be declined. This emphasis is added to promote audit quality.</p>
<p><b>SECTION 291</b> <b>INDEPENDENCE—OTHER ASSURANCE ENGAGEMENTS</b> <b>Structure of Section</b></p>	<p><b>Compelling reason for amendment</b></p>
<p>291.1 This section addresses independence requirements for assurance engagements that are not audit or review engagements of financial statements or a single financial statement. Independence requirements for audit and review engagements are addressed in Section 290. If the assurance client is also an audit or review client, the requirements in Section 290 also apply to the firm, network firms and members of the audit or review team. In certain circumstances involving assurance engagements where the assurance report includes a restriction on use and distribution and provided certain conditions are met, the independence requirements in this section may be modified as provided in 291.21 to 291.27.</p>	<p>Included for context.</p>
<p>NZ291.1.1 Section 290 also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.</p>	<p>PES 1 (Revised) extends the scope of Section 291 to cover all assurance engagements in relation to an offer document of an issuer in respect of historical financial information, prospective or pro-forma information or a combination of these.</p> <p>The NZAuASB is of the view that this amendment is necessary to promote audit quality. The nature of assurance provided where the subject matter is prospective information included in any offer</p>

	document of an issuer, and the importance of those services to the broader public interest, warrant the same level of independence as an assurance engagement over historical financial information.
<b>Public Interest Entities</b>	
<p>NZ291.3.1 Section 291 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities include entities that have public accountability, are deemed to have public accountability or are of economic significance. In New Zealand, the following entities are deemed to be Public Interest Entities:</p> <ul style="list-style-type: none"> <li>Any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1<sup>3</sup>.</li> </ul>	<p>The NZAuASB acknowledges that defining a public interest entity as all Tier 1 entities per the accounting standards framework will result in a much broader application of the stricter public interest entity requirements. This would therefore promote significant improvement in audit quality to all Tier 1 entities. Entities are included in Tier 1 based on accountability. The XRB has determined that all Tier 1 entities are required to meet the highest financial reporting requirements.</p> <p>The NZAuASB considers that it is appropriate to delete and replace the definition of public interest entity in paragraph 290.25 as drafted by the IESBA as this paragraph would be inconsequential in New Zealand.</p>
<p>NZ291.3.2 Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as if they were public interest entities because they have a large number and wide range of stakeholders or represent a higher level of risk. Factors to be considered include:</p> <ul style="list-style-type: none"> <li>The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial</li> </ul>	Based on 290.26

<sup>3</sup> XRB A1 *Application of the Accounting Standards Framework*.

<p>institutions, such as banks and insurance companies, and pension funds;</p> <ul style="list-style-type: none"> <li>• Size; and</li> <li>• Number of employees.</li> </ul>	
<p>NZ291.10.1 Where an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.</p>	<p>The requirement to evaluate multiple threats to independence identified in aggregate, which individually may not be significant, is not explicitly required by the IESBA Code. The NZAuASB is of the view that there is a compelling reason to explicitly state this as it provides clarity to assurance practitioners on how to appropriately consider and evaluate the threat of independence which is one of the fundamental principles of the Code.</p>
<p><b>Reports that Include a Restriction on Use and Distribution</b></p>	
<p>291.21 In certain circumstances where the assurance report includes a restriction on use and distribution, and provided the conditions in this paragraph and in 291.22 are met, the independence requirements in this section may be modified. The modifications to the requirements of Section 291 are permitted if the intended users of the report (a) are knowledgeable as to the purpose, subject matter information and limitations of the report and (b) explicitly agree to the application of the modified independence requirements. Knowledge as to the purpose, subject matters information, and limitations of the report may be obtained by the intended users through their participation, either directly or indirectly through their representative who has the authority to act for the intended users, in establishing the nature and scope of the engagement. Such participation enhances the ability of the firm to communicate with intended users about independence matters, including the</p>	<p>Included for context.</p>

<p>circumstances that are relevant to the evaluation of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level, and to obtain their agreement to the modified independence requirements that are to be applied.</p>	
<p>291.22 The firm shall communicate (for example, in an engagement letter) with the intended users regarding the independence requirements that are to be applied with respect to the provision of the assurance engagement. Where the intended users are a class of users (for example, lenders in a syndicated loan arrangement) who are not specifically identifiable by name at the time the engagement terms are established, such users shall subsequently be made aware of the independence requirements agreed to by the representative (for example, by the representative making the firm's engagement letter available to all users).</p>	<p>Included for context</p>
<p>NZ291.27.1 When the conditions set out in paragraphs 291.21 and 291.22 are met, it is not necessary to apply the additional public interest entity requirements in paragraphs 291.112 to 291.157 that apply to assurance engagements for public interest entities.</p>	<p>The NZAuASB has added exceptions to the independence requirements for public interest entities in paragraph NZ 291.27.1 in limited circumstances where the report includes a restriction on use and distribution. This is similar to the approach adopted in section 290, and are replicated in section 291 because public interest restrictions have been added to section 291 as described in the previous section (see paragraphs NZ291.3.1-NZ291.3.2).</p>
<p><b>Breach of a Provision of this Section</b></p>	
<p>The IESBA has included an abbreviated version of the provisions for addressing a breach of the independence requirements for section 291. The NZAuASB is of the view that there is no reason why an abbreviated framework would apply to a breach of the independence requirements when performing an assurance engagement under section 291 compared to an audit or review engagement under section 290. The consequences of a</p>	

breach of independence are as significant regardless of the subject matter of the engagement. The NZAuASB has therefore included the same framework as described in section 290 within section 291.	
291.33-291.37 [Amended by the NZAuASB. Refer to NZ 291.33- NZ 291.43 below].	
NZ291.33 A breach of a provision of this section may occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. A consequence of such a breach may be that termination of the assurance engagement is necessary.	Based on 290.39
NZ291.34 When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.	290.40
NZ291.35 When a breach is identified, the firm shall consider whether there are any legal or regulatory requirements that apply with respect to the breach and, if so, shall comply with those requirements. The firm shall consider reporting the breach to a professional body, relevant regulator or oversight authority if such reporting is common practice or is expected in the particular jurisdiction.	290.41

<p>NZ291.36</p> <p>When a breach is identified, the firm shall in accordance with its policies and procedures, promptly communicate the breach to the engagement partner, those with responsibility for policies and procedures relating to independence, other relevant personnel in the firm, and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action. The firm shall evaluate the significance of that breach and its impact on the firm’s objectivity and ability to issue an assurance report. The significance of the breach will depend on factors such as:</p> <ul style="list-style-type: none"> <li>• The nature and duration of the breach;</li> <li>• The number and nature of any previous breaches with respect to the current assurance engagement;</li> <li>• Whether a member of the assurance team had knowledge of the interest or relationship that caused the breach;</li> <li>• Whether the individual who caused the breach is a member of the assurance team or another individual for whom there are independence requirements;</li> <li>• If the breach relates to a member of the assurance team, the role of that individual;</li> <li>• If the breach was caused by the provision of a professional service, the impact of that service, if any, on the subject matter or subject matter information on which the firm will express an opinion; and</li> <li>• The extent of the self-interest, advocacy, intimidation or other threats created by the breach.</li> </ul>	<p>290.42</p>
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<p>NZ291.37</p>	<p>Depending upon the significance of the breach, it may be necessary to terminate the assurance engagement or it may be possible to take action that satisfactorily addresses the consequences of the breach. The firm shall determine whether such action can be taken and is appropriate in the circumstances. In making this determination the firm shall exercise professional judgement and take into account whether a reasonable and informed third party, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the assurance practitioner at that time, would be likely to conclude that the firm's objectivity would be compromised and therefore the firm is unable to issue an assurance report.</p>	<p>290.43</p>
<p>NZ291.38</p>	<p>Examples of actions that the firm might consider include:</p> <ul style="list-style-type: none"> <li>• Removing the relevant individual from the assurance team;</li> <li>• Conducting an additional review of the affected assurance work or re-performing that work to the extent necessary, in either case using different personnel;</li> <li>• Recommending that the assurance client engage another firm to review or re-perform the affected assurance work to the extent necessary; and</li> <li>• Where the breach relates to a non-assurance service that affects the subject matter or subject matter information, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the</li> </ul>	<p>290.44</p>



	extent necessary to enable it to take responsibility for the service.	
NZ291.39	If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall inform those charged with governance as soon as possible and take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.	290.45
NZ291.40	<p>If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with those charged with governance. The firm shall discuss the breach and the action as soon as possible, unless those charged with governance have specified an alternative timing for less significant breaches. The matters to be discussed shall include:</p> <ul style="list-style-type: none"> <li>• The significance of the breach, including its nature and duration;</li> <li>• How the breach occurred and how it was identified;</li> <li>• The action taken or proposed to be taken and the firm's rationale for why the action will satisfactorily address the consequences of the breach and enable it to issue an assurance report;</li> </ul>	290.46

<ul style="list-style-type: none"> <li>• The conclusion that, in the firm’s professional judgement, objectivity has not been compromised and the rationale for that conclusion; and</li> <li>• Any steps that the firm has taken or proposes to take to reduce or avoid the risk of further breaches occurring.</li> </ul>	
<p>NZ291.41 The firm shall communicate in writing with those charged with governance all matters discussed in accordance with paragraph NZ291.40 and obtain the concurrence of those charged with governance that action can be, or has been taken to satisfactorily address the consequences of the breach. The communication shall include a description of the firm’s policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained and any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring. If those charged with governance do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit or review engagement, where permitted by law or regulation, in compliance with any applicable legal or regulatory requirements relevant to terminating the audit or review engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.</p>	290.47
<p>NZ291.42 If the breach occurred prior to the issuance of the previous assurance report, the firm shall comply with this section in evaluating the significance of the breach and its impact on the firm’s objectivity and its ability to issue an assurance report in the current period. The firm shall also consider the impact of the breach, if any, on the firm’s objectivity in relation to any</p>	290.48

<p>previously issued assurance reports, and the possibility of withdrawing such assurance reports, and discuss the matter with those charged with governance.</p>	
<p>NZ291.43 The firm shall document the breach, the action taken, key decisions made and all the matters discussed with those charged with governance and any discussions with a professional body, relevant regulator or oversight authority. When the firm continues with the assurance engagement, the matters to be documented shall also include the conclusion that, in the firm’s professional judgement, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an assurance report.</p>	<p>290.49</p>
<p><b>Temporary Staff Assignments</b></p>	
<p>NZ291.129.1 The lending of staff by a firm to an assurance client may create a self-review threat. This would be the case when, for example, a member of the assurance team has to evaluate elements of the subject matter information the member of the assurance team had prepared while with the client. Such assistance may be given, but the firm’s personnel shall not be involved in:</p> <ul style="list-style-type: none"> <li>• Providing non-assurance services that would not be permitted under this section; or</li> <li>• Assuming management responsibilities in a position which would give the loaned staff significant influence over the subject matter on which the firm will express an opinion.</li> </ul>	<p>Additional guidance from section 290 has been added into section 291 on temporary staff assignments as it relates to assurance engagements that are not audits or reviews. This has been added to section 291 to emphasize that a self-review threat may arise, regardless of whether the subject matter of the engagement is financial statements or not. It is not intended to be a prohibition and will not apply where the role is not related to the subject matter of the assurance engagement.</p> <p>The NZAuASB is of the view that this guidance, which is expanded guidance on the threats and safeguards approach, is as relevant to other assurance engagements as it is to audits and reviews and therefore the addition promotes audit quality. The NZAuASB believes that the threats to independence do not differ when the subject matter of the engagements are financial statements or another</p>

<p>In all circumstances, the assurance client shall be responsible for directing and supervising the activities of the loaned staff.</p> <p>The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> <li>• Conducting an additional review of the work performed by the loaned staff;</li> <li>• Not giving the loaned staff responsibility for any function or activity that the staff performed during the temporary staff assignment; or</li> <li>• Not including the loaned staff as a member of the assurance team.</li> </ul>	<p>subject matter. Lending staff may create a self-review threat if that staff member is later involved in providing assurance over that subject matter or that subject matter information.</p>
<p><b>Long Association (see new long association provisions)</b></p>	<p>Refer to agenda item 4</p>
<p><b>Provision of Non-assurance Services to Assurance Clients</b> Assurance Clients that are Public Interest Entities</p>	
<p>NZ291.147.1 A firm shall not provide valuation services to an assurance client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the subject matter information of an assurance engagement.</p>	<p>Section 290 of the IESBA Code includes more stringent requirements for audit or review clients that are public interest entities. Section 291 does not make any distinction between clients that are public interest entities and those that are not. Accordingly, PES 1 (Revised) includes a definition of a public interest entity in section 291 and proposes more stringent requirements. The NZAuASB is of the view that the threats to independence do not differ when the subject matter of the engagement are financial statements or another subject matter.</p>
<p>NZ291.147.2 In the case of an assurance client that is a public interest entity, a firm shall not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal control over the subject matter of the engagement or (b) generate information that is significant</p>	<p>The NZAuASB considers that these prohibitions are appropriate for other assurance clients, if they are in public interest entities. Given the high level of interest in a public interest entity prohibiting such</p>

<p>to the subject matter information on which the firm will express an opinion.</p>	<p>series in these circumstances is appropriate to maintain independence. Having a list of prohibitions is clearer and appropriate to address the threat to independence if the circumstances arose, and therefore promotes audit quality. These prohibitions therefore best serve the public interest.</p>
<p>NZ291.147.3 A firm shall not provide the following recruiting services to an assurance client that is a public interest entity with respect to a director or officer of the entity or senior management in a position to exert significant influence over the subject matter or the preparation of the subject matter information on which the firm will express an opinion:</p> <ul style="list-style-type: none"> <li>• Searching for or seeking out candidates for such positions; and</li> <li>• Undertaking reference checks of prospective candidates for such positions.</li> </ul>	<p>series in these circumstances is appropriate to maintain independence. Having a list of prohibitions is clearer and appropriate to address the threat to independence if the circumstances arose, and therefore promotes audit quality. These prohibitions therefore best serve the public interest.</p>
<p><b>Fees</b> <i>Fees—Relative Size</i></p>	
<p>NZ291.148.1 When appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the assurance practitioner shall decline or withdraw from the engagement.</p> <p>[To be considered in Phase 2]</p>	<p>Compelling reason amendment. The NZAuASB considers the relative size of fees is a significant threat to independence. The NZAuASB dismissed the option of establishing a prohibition on acting as the audit firm if a predefined level of annual fee income is exceeded, as done in other jurisdictions, as this may not address every circumstance. The NZAuASB supports the application of the conceptual framework to address the threat, with emphasis that this is a significant threat that must be appropriately managed and therefore has emphasized that it is not always possible to mitigate the threats using safeguards, and that the engagement may need to be declined. This emphasis is added to promote audit quality.</p>

Assurance Clients that are Public Interest Entities	
<p>NZ291.149.1 Where an assurance client is a public interest entity and, for two consecutive years, the total fees from the client (subject to the considerations in paragraph 291.3) represent more than 15% of the total fees received by the firm, the firm shall disclose to those charged with governance of the assurance client the fact that the total of such fees represents more than 15% of the total fees received by the firm, and discuss which of the safeguards below it will apply to reduce the threat to an acceptable level, and apply the selected safeguard:</p> <ul style="list-style-type: none"> <li>• Prior to the issuance of the second year’s opinion, another assurance practitioner, who is not a member of the firm expressing the conclusion, performs an engagement quality control review of that engagement (“a pre-issuance review”); or</li> <li>• After the second year’s opinion has been issued, and before the issuance of the conclusion on the third year’s opinion, another assurance practitioner, who is not a member of the firm, performs a review of the second year’s engagement that is equivalent to an engagement quality control review (“a post-issuance review”).</li> </ul> <p>When the total fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.</p> <p>Thereafter, when the fees continue to exceed 15% each year, the disclosure to and discussion with those charged with governance</p>	<p>Section 290 of the IESBA Code includes more stringent requirements for audit or review clients that are public interest entities. Section 291 does not make any distinction between clients that are public interest entities and those that are not. Accordingly, PES 1 (Revised) includes a definition of a public interest entity in section 291 and proposes more stringent requirements. The NZAuASB is of the view that the threats to independence do not differ when the subject matter of the engagement are financial statements or another subject matter.</p> <p>The NZAuASB considers that these prohibitions are appropriate for other assurance clients, if they are in public interest entities. Given the high level of interest in a public interest entity prohibiting such series in these circumstances is appropriate to maintain independence. Having a list of prohibitions is clearer and appropriate to address the threat to independence if the circumstances arose, and therefore promotes audit quality. These prohibitions therefore best serve the public interest.</p>

shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

## DEFINITIONS

In this *Code of Ethics for Assurance Practitioners* the following expressions have the following meanings assigned to them:

[NZ] Assurance client    An entity in respect of which a firm conducts an assurance engagement.

[NZ] Assurance practitioner    A person or an organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements.    NZ specific definition

[NZ] Assurance services    Comprise of any assurance engagements performed by an assurance practitioner.    NZ specific definition



- [NZ] Assurance team (a) All members of the engagement team for the assurance engagement; NZ specific definition
- (b) All others within a firm who can directly influence the outcome of the assurance engagement, including:
- (i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
  - (ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
  - (iii) those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.

[NZ] Audit client An entity in respect of which a firm conducts an audit engagement. When the client is a FMC reporting entity considered to have a higher level of public accountability, audit client will always include its related entities. When the audit client is not a FMC reporting entity considered to have a higher level of public accountability, audit client includes those related entities over which the client has direct or indirect control.

References to listed entity in the IESBA definition are replaced with references to FMC reporting entity considered to have a higher level of public accountability.

[NZ] FMC reporting entity considered to have a higher level of public accountability	<p>A FMC reporting entity or a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:</p> <p>Under section 461K of the Financial Markets Conduct Act 2013; or</p> <p>By notice issued by the Financial Markets Authority (FMA) under section 461L(1)(1) of the Financial Markets Conduct Act 2013.</p>	Term used in NZ in place of listed entity
[NZ] Key assurance partner	<p>The engagement partner, the individual responsible for the engagement quality control review, and other assurance partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the assurance engagement.</p>	NZ specific definition
Listed entity	<p><i>[Deleted by the NZAuASB].</i></p>	FMC reporting entity considered to have a higher level of public accountability replaces listed entity in NZ.
[NZ] Offer document	<p>A document, such as a product disclosure statement or a disclosure document, required by legislation to be prepared by an entity when financial products are offered to the public.</p>	<p>PES 1 (Revised) extends the scope of section 290 to cover all assurance engagements in relation to an offer document of an issuer in respect of historical financial information, prospective or pro-forma information, or a combination thereof. Accordingly, a NZ definition of offer document is included in the definitions</p>
Professional accountant	<p><i>[Deleted by the NZAuASB].</i></p>	Replaced by assurance practitioner in NZ

Professional accountant in business	<i>[Deleted by the NZAuASB].</i>	Not within NZAuASB mandate
Professional accountant in public practice	<i>[Deleted by the NZAuASB].</i>	Replaced by assurance practitioner in NZ
[NZ] Public benefit entity	A reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.	Defined in XRB A1, Application of the Accounting Standards Framework
[NZ] Public interest entity	Any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1 <sup>4</sup> .	See agenda item x

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<sup>4</sup> XRB A1 *Application of the Accounting Standards Framework*.

## Shareholders Association- Comments from online survey

### Thinking about the auditor's report, how do you rate the new format relative to the old format?

- More detail provided.
- The focus on materiality levels and on Key Audit Matters - and how they were addressed - provides assistance to the investor (usually) not otherwise available
- Key audit matters is more thorough, and attributing it to the responsible person is useful, the clear assessment of materiality is also useful, showing the extent of sins which can be hidden from view.
- It's slightly less bland than before but it's still bland. They have the look of a consultant report (or the brief summary section) than an actual audit. It might be interesting to see the next audit where I hope that they will also report on how managers and directors have responded.
- Still lacks transparency
- Easy to understand the audit process
- I don't find that Auditors Reports add much to an Annual Report. They still focus on the 'procedures' of the reporting rather than an independently conducted analysis of the financial health of the company.
- It is informative to read what the auditors have been focussed on
- BUT , there is too much written qualification in description which should probably be included as a standard format in the form of a glossary .
- More information on the issues facing the company.
- Highlights important judgemental areas & hence forces more scrutiny of the material areas.
- Layout more logical
- It removes the main weakness of the previous format which was sterile and uninformative. As a recently retired auditor, I felt that the previous format did not adequately represent the many hours of work undertaken by the auditor and that it was difficult, no impossible, for shareholders to understand what the auditor had actually done. Now the investor gets a peek behind the curtain.
- I like the audit opinion being at the start, and then having the important issues for the audit.
- It covers more information that needs to be spelled out. However, I am involved with a charity whose accounts are audited and the information needed now is "over the top", far too much unnecessary reporting and difficult for charities treasurers.
- Forget about auditor's reports. The most important thing is to show is the movements in the Imputation Credit Account. Your External Reporting Board have made financial statements a gigantic mish mash of meaningless information. Look at the Imputation Credit Account. If they pay N.Z. tax they are making money; if they are not making money they don't pay tax. You don't have to go through a huge number of pages to see that salient information; if it was provided. It isn't.
- easier to read
- It gives information on what the auditor has looked into and how assessments had been evaluated. It gives the shareholder confidence in the report. It also makes the auditor more accountable
- Signpost to the key audit matters ( as seen by the auditor) and how they dealt with them
- Clearer

- Highlights the areas of focus for the auditors; those areas inevitably involve management and directors' judgement & estimates - so good to have them highlighted for readers
- More detail that is relevant to investors. The KAMs provide a checklist/comparison that investors can review relative to any key accounting matters that they have identified. Also provides additional assurance that key issues have been highlighted and reviewed. May also prompt investors to look in more detail at areas they hadn't previously identified.

**Thinking about the Key Audit Matters (KAMs) included in the new format auditor's report, do you think the inclusion of KAMs provides better insights about the key matters affecting the entity and its financial statements and how they were audited?**

- The extra information provided gives more insight into the scope of the audit.
- Generally speaking the audit report is of little interest unless it is qualified. An audit report comes into focus when at a later date problems occur in an entity after the audit - receivership, fraud etc. Quite often it then transpires that the auditors were negligent or incompetent. Insurance normally solves the problem for the auditor. There are a number of reasons for the high levels of incompetence.
- The identification of KAMs indicating those aspects of the company's operations the auditor felt it necessary to give extra attention (perhaps?) encourages the company to be more transparent in its treatment of the same matter. For example, in the case of Pacific Edge, the directors may have dealt with the "going concern" issue in greater detail than may have been the case under the previous regime
- the key matters will vary from company to company, and bear attention within the ASM format. Auditors should be prepared to comment on difficulties and shortcomings in the methods so that shareholders get some idea that the reports can never be 100% reliable
- Slight improvement but I doubt the additional costs are justified by the changes. I don't see any greater assurance that the directors and managers are doing what they say they are doing which is surely the KEY matter.
- Puts a dollar value on materiality & how it was determined. Sets out the key audit matters & explains the approach. Assists in formulating questions for ASM. Helps to see where the risk is in the company.
- There is varying practice to date - some KAMs are more detailed than others. This is understandable given it is a new feature.
- The essence of all accounts should be to make them as clear and straightforward to read and interpret without the need for qualification and specific interpretations, with the rare exceptions of extraordinary matters. Many companies manage to achieve this, such as BGP, HLG , NZX ,POT,CMO, and others, many reports have become complex and wordy to the extent they too lengthy and to an extent appear as glossy sales brochures .
- I must admit that I have not fully understood the actions taken.
- Obviously
- Alerts reader to key indicators and risks
- For investors to have a better insight, they require an understanding of accounting standards and auditing processes. Some investors will have that understanding but for others who don't, the new audit report may create confusion.
- The auditor states the key audit matters and I, as a reader of the financial reports, can assess whether I agree that these are they key audit matters and consider their responses.
- I agree with the better insight given

- See my earlier comments
- It directs my attention to matters I may have previously ignored, or not quite understood the relevance of the information.
- n/a
- It increases auditor accountability by showing what issues the audit has covered and hence allows the investor to judge the quality of the audit.
- similar to my last answer. Indicates where the auditor's energy went and where I disagree with their conclusions, gives me talking points to raise at ASM
- Highlighting the areas of auditor focus is useful for readers
- Transparency in particular is improved as key themes are identified and the means by which they were evaluated are described.

**Do you consider that the inclusion of Key Audit Matters (KAMs) increases your confidence in the external audit process?**

- More disclosure provided.
- The quality of the audit process is often only exposed if something goes wrong.
- Because it makes the audit process more transparent in that it requires the auditor to justify and explain his/her conclusion to a greater extent i.e. the opinion now gives a greater indication of how and why a particular audit conclusion was reached
- It permits greater transparency around the process and the result
- Having read 5 or more audit reports, I don't have any greater confidence that managers are reporting correctly. Most important here is what was left out such as Fletchers.
- The transparency of the Auditors comes into question
- Better understanding of how auditors go about the process of auditing
- It assists in forming judgments about financial and other risks
- Auditors, seem to be increasingly competent in covering any circumstance that may reflect on the quality of their work. I consider that auditors should have a significant investigative role as well as just reviewing the documentation that is provided for them to review. They should report in detail on any matters that require investigation.
- Ensures a wider audience of issues that previously were hidden from the shareholders.
- Greater visibility of key areas strengthens auditors position viva vis management
- Easier to follow
- Sometimes it is easier to trust someone or something if you aren't aware of what's going on, i.e. a blind faith. Example, every aeroplane that I have flown in has been landed safely. Knowing about the pilot's stressful moments and challenges would not increase my confidence.
- The readers of the financial report and auditors' reports will not know whether the auditor really did do a good job with the audit and, if necessary, questioned and stood-up to management and the boards.
- Because the auditor has to be more specific than previously and what is required is spelled out.
- My confidence in the external audit process is at an all-time low.
- It is interesting to know which matters the auditors are focussing on, and to see how they are dealing with it.
- simpler explanations

- As per previous reasons
- I already had confidence in the external audit process (as an accountant and as a company director), but I can appreciate that for some readers of financial statements, the inclusion of KAMs would increase their confidence in the external audit process
- Due to greater openness/transparency around key matters covered.

**Thinking of the auditor's reports that you have seen, did the auditor provide a succinct, clear and balanced explanation in the auditor's report of each KAM reported?**

- Generally OK.
- They tend to be too careful with the employing authority (Board audit committee) instead of saying it as it is. Too much soft generalisation
- What they did, they did well enough and without too much jargon. However, the sense I had was of a hands off, remote assessment. Essentially ticking a box to comply with new demands, while still remaining sufficiently distant. I don't think I understood why particular KAMs were chosen and why other potential KAMs were not.
- No consistency
- There is mixed practice so far as to the provision of conclusions to the KAMs. You could argue the overall conclusion is implicit in the audit opinion itself but this is debatable. I personally think it is better to include conclusions on each KAM as to whether the auditor was satisfied following enquiry.
- See my earlier comments
- one in particular was quite confusing.
- None necessary

**Can you provide example(s) of very useful auditor's reports that you have seen? What sets them apart from others?**

- Not at this stage.
- No. However I am sure the auditors often use a sort of rote audit report to pass muster. The auditors deal with management. They know who hires them and the people who are responsible for
- Cannot bring specific examples to mind
- They were all improved and lead to questions involving the audit process and valuation of goodwill in the various AGMs
- No
- No
- Confidential
- Abano Healthcare Oceania
- orora ltd Australia. annual Report y/e 30/06/2017 pwc auditors, the full details in their KAM notes regarding impairment of non-current assets, including property, and the decommissioning costs of plant not only in Australia but in other countries where the company trades. It was possible to understand the financial implications easily.
- Can't think offhand sorry
- CMO was straightforward and not bad STU also OK FBU inadequate given the circumstances CEN very poor.

- no
- fdsf
- Property companies and importance and subjectivity of valuations.
- No
- I have not had reservations about any that I have seen
- Mainfreight Revenue statements--Balance sheet--all very meaningful
- Goodman Property Trust talking about valuation of buildings. Fletcher Building talking about the method of recognition of income on contracts.
- Specific needs of the particular company is now reported on
- no
- I wish I could. I can't. I won't.
- I have shares in about 30 co's and not enough time to think of them all, or compare them. I will admit that I used pretty much ignore the auditors declaration, but now I do make a point of reading it.
- n\ a
- Steel and Tube, Extensive explanation of goodwill, acquisition value assessment and. Named auditors engagement partner in charge AWF Madison Extensive explanations of goodwill valuation, impaired debtor, and acquisition. Named auditors engagement partner in charge.
- A recent example was Abano where I had concerns that were addressed and covered off by the KAM. This gave me increased confidence in the company's operating performance
- No specific examples; my experience so far (as a director and Audit Committee chairman) is that the "Big 4" external auditor firms have been prepared to work with their clients to ensure there is good understanding on the reasons for KAMs and getting general alignment on the KAM wording
- I do monitor a number of companies that have been poor performers - for eg Rakon and recently Fletcher Building. There were a number of pages of KAMs for Rakon and this provided a useful cross reference to what we believed were the key issues relating to financial performance. I am looking forward to seeing the auditor's report for PGC when it becomes available. Separately, I have noted that the key audit firms have taken slightly different approaches to the presentation of their reports. For example PWC includes more detail of what their definition of "materiality" is and also generally include a concluding comment on their view of a company's financial content relative to a KAM. Audit reports from Deloitte include detail of materiality but not KAM conclusions and reports from EY have neither. At first glance I see the inclusion of greater detail and conclusion comments as a positive for investors. On behalf of NZSA I intend to make enquiries amongst other stakeholder groups to find out their views on the different audit report approaches.
- No

**Auditors are not required to include conclusions or findings about KAMs but some auditors have opted to include this information. Thinking about the auditor's reports that you have seen, did any of the reports include conclusions or findings about KAMs?**

- Some did and some did not; They were trying to protect their "backside"
- see my earlier comments. Even if the overall opinion is not affected by a negative conclusion (e.g., if the matter was not material enough to affect a positive opinion), I think it is informative to get the conclusion- it tells you a bit about the culture of the organisation in question.



- Any competent comment about KAMs is valuable
- See previous answers
- Cavalier: alerts to viability issues
- Yes, personally as an ex-auditor because I have some understanding of the process.
- More specific in their reporting
- The more relevant information the better!
- Helpful because it gives confidence about the issues the audit has covered. These issues should be the critical issues relating to the business of the company.
- Greater transparency and greater level of assurance where the conclusions were included. If the conclusion indicated that there were some differences at the margins between the views of the auditor and those of the company principals, then this would indicate an area to keep a more detailed eye on. Again, my first impression has been that this should not be the cause of any significant problems for reporting companies but instead could be considered useful transparency that is in keeping with the aims behind the change to the way audit reports are presented.

**Auditors are not required to disclose materiality but some auditors have opted to do so. Thinking about the auditor's reports that you have seen, were materiality levels reported?**

- The larger the company the larger the materiality figure, and this can really hide some big sins!
- In some cases there was obvious materiality;-; others very little and too obscure
- Extremely useful
- Understanding of auditors position
- It gives an indication that the financial report is not accurate to the last dollar
- It shows that they have thought about the issue. It also lets the readers know that there will always be some errors or differences of opinion, and what is important, is the size of these.
- ditto
- Of course these are helpful because it shows the level of audit reliability. Some of the audits state the materiality as 5% of pre-tax profit. This seems an acceptable level of materiality for shareholders.
- Not helpful for me as I understand the materiality concept; but likely to be helpful for some readers who haven't previously understood the materiality concept
- As with previous question, this information is useful as a cross reference and as an indicator. Again, this level of disclosure seems consistent with the desire of investors for greater transparency.

**The auditor responsibility section of the audit report can either include a full description of their responsibilities or instead refer the reader to the XRB website . Which approach do you prefer?**

- Audit information is useful but historically auditors have not often alerted investors to impending financial disaster. As they have access to enough information they should be able to provide warnings in this area much more frequently than has occurred to date. This is the

information most important for investors. e.g. no warnings showed up prior to Arrium's ( ASX)demise.

- The auditors like to keep management happy.
  - I really disagree with the restrictive liability to shareholders as a group, and believe that auditors should be more liable to the wider investing public and potential buyers. there for it need to be stated every time in big letters so that we all know that the profession cannot be trusted.
  - It makes it a One-hit exercise. As a private investor, I have other things to do and I want to use my time well. Having it all in one report without the need to access a separate website is much simpler.
  - Maybe at long last the Auditors will do their job properly
  - Reviewing the details in the Annual Report which may not be reported with the detail by the financial press and reporters
  - You can find out the responsibilities (which are common to all) by looking at the website- means the report is less cluttered
  - I hold stocks in about 40 NZ and Aus companies, I receive written annual and semi-annual reports, I confess I do not read all in detail, however most do receive my attention. Sad to say I think many fall short on good clear precise reporting, which falls as the lack of responsibility by the BOD.
  - Cut out repetitive verbiage
  - The new format is better because: - each report is customised for the client rather than the previous sterile standardised format - it allows shareholders to appreciate the type of challenges and the work being done by auditors - it assumes that shareholders will understand the reports which may be true for some but not all investors - there is a risk that confidence in audits could be reduced where previously, a clean audit report suggested that the company had passed the gold standard
  - Explains the Auditor's independent role in the process. Reduces the opportunity for fraud. Management of financial risk is identified & qualified.
  - I don't want the audit report to be too long with too much reading.
  - More logical as many people could not find their way to work out what it is about
  - Please see my notes above.
  - Including these key audit matters makes sound commercial sense, unlike some of the other more political/diversity stuff that is creeping into annual reports.
- 
- It is important that shareholders receive a full written and signed report. That is what has been paid for and that is what should be supplied. It also protects against misunderstandings about possible changing rules over time.
  - I don't want to have to go off to a web site to check a point
  - Inevitably many readers won't go to the XRB website
  - The reports I have seen include a brief overview of the auditor's responsibilities and a link to the XRB site if further information is needed. This seems adequate to me.

## NZAuASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 8.1  
**Meeting date:** 25 October 2017  
**Subject:** Auditor reporting FAQs  
**Date:** 10 October 2017  
**Prepared by:** Anne Waters and Misha Pieters

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**Action Required**

**For Information Purposes Only**

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### Agenda Item Objectives

To:

- CONSIDER additional FAQs as drafted by AUASB staff for issue in New Zealand.

### Background

1. The NZAuASB and the AUASB have issued a series of FAQs that are available on each Board's respective website. AUASB staff have been continuing to develop additional FAQs. Some recent additions to the AUASB website cover matters that are of relevance for New Zealand. These questions deal with:
  - a. Can a subsequent event which provides evidence of conditions that arose after the date of the financial report be communicated as a key audit matter or an emphasis of matter in the auditor's report? (This question is relevant for New Zealand)
  - b. If a matter meets the definition of a key audit matter and is fundamental to users understanding of the financial report (emphasis of matter criteria), how is this communicated in the auditor's report? (This question is relevant for New Zealand).
  - c. Is the Director's Report other information? (This question has been raised by New Zealand practitioners and is equally applicable in New Zealand).
  - d. Does the Remuneration Report form part of other information? If the auditor is providing an opinion on the Remuneration Report, how does this affect the reporting on other information? (This is unlikely to be applicable for New Zealand)
  - e. When do audit reports on financial reports of non-listed entities include an other information section? (The XRB website already includes a question "When is the auditor's report required to include an "Other Information" section?)

**Action required**

2. We ask the board to consider the additional FAQs developed by AUASB staff for release in New Zealand. (If the Board agrees to issue these FAQs, they will be amended for New Zealand references.)

**Material Presented**

Agenda item 8.1  
Agenda item 8.2

Board Meeting Summary Paper  
Additional FAQs developed by AUASB staff

# AUDITOR REPORTING FAQ

## 1. **Can a subsequent event which provides evidence of conditions that arose after the date of the financial report be communicated as a key audit matter or an emphasis of matter in the auditor's report?**

Key audit matters (KAMs) are matters that, in the auditor's judgement, were of most significance in the audit of the financial report of the current period. ASA 560 *Subsequent Events* requires the auditor to obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial report and the date of auditor's report are appropriately reflected in that financial report in accordance with the applicable financial framework.

AASB 110 *Events Occurring After Balance Sheet Date* requires the following accounting treatment in the financial report:

- Events that provide evidence on conditions that existed at reporting date are adjusted.
- Events that provide evidence on conditions that arose after the date of the financial report, are not adjusted, however if material, are disclosed.

Subsequent events which are adjusted or disclosed in the financial report are matters relevant to the financial report of the current period. Therefore, where ASA 701 applies, they may be identified as a KAM if, in the auditor's judgement, they are a matter of most significance to the audit of that financial report.

ASA 706 paragraph A5 includes a significant subsequent event as an example of where an emphasis of matter (EOM) paragraph may be necessary. However in, accordance with ASA 706.8(b), an EOM is only communicated if the matter is not determined to be a KAM. In this scenario the auditor may choose to highlight or draw further attention to the matter's relative importance by presenting it first in the KAM section, or include additional information in the KAM to highlight that it is fundamental to users' understanding of the financial report<sup>1</sup>.

If ASA 701 does not apply, or if the matter is not a matter of most significance to the audit (i.e. not a KAM), the auditor uses judgement and considers whether an EOM is appropriate in accordance with ASA 706<sup>2</sup>.

## 2. **If a matter meets the definition of a key audit matter and is fundamental to users understanding of the financial report (emphasis of matter criteria), how is this communicated in the auditor's report?**

If key audit matters (KAMs) are communicated, and a matter meets the definition of a KAM and in the auditor's judgement is of such importance that it is fundamental to a user's understanding of the financial report (i.e. where the auditor contemplates communicating an emphasis of matter paragraph), the matter is communicated as a KAM in the auditor's report. In this scenario the auditor may choose to highlight or draw further attention to the matter's relative importance by presenting it first, or more prominently, in the KAM section, or include additional information in the description of the KAM to highlight the importance of the matter to users' understanding of the financial report<sup>3</sup>.

## 3. **Is the Director's Report other information?**

ASA 720 defines other information as financial and non-financial information (other than the financial report and the auditor's report there on) included in an entity's annual report. An Annual Report is information prepared to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position

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<sup>1</sup> ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8, A2

<sup>2</sup> ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8, A1 – A3

<sup>3</sup> ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 8, A2

as set out in the financial report, and contains or accompanies the financial report. The Director's Report forms part of other information.

**4. Does the Remuneration Report form part of other information? If the auditor is providing an opinion on the Remuneration Report, how does this affect the reporting on other information?**

ASA 720 defines other information as financial or non-financial information (other than the financial report or the auditor's report thereon) included in an entity's annual report. An Annual Report is information prepared to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial report, and contains or accompanies the financial report.

The *Corporations Act 2001* requires listed companies to include a Remuneration Report in the Director's Report<sup>4</sup> which forms part of the Annual Report, and therefore other information.

If the Director's Report includes a Remuneration Report, section 308(3C) of the *Corporations Law 2001* requires the auditor to provide an opinion on the Remuneration Report.

ASA 720 requires the auditor to read and consider whether there is a material inconsistency in the other information. The other information section of the auditor's report includes a statement that the auditor's opinion does not cover the other information, and accordingly, that the auditor does not express an audit opinion or any form of assurance conclusion thereon. If the auditor is providing an audit opinion on the Remuneration Report, the other information section may include a comment that this has been audited and make reference to the separate opinion included, however there is no requirement to do so.

**5. When do audit reports on financial reports of non-listed entities include an other information section?**

ASA 720 requires audit reports on financial reports of non-listed entities to include an other information section if the auditor has obtained some or all of the other information as at audit report date. If no other information has been received as at audit report date, an other information section is not included in the auditor's report. However, this is unlikely to be the case for audits conducted under the *Corporations Act 2001*, as the Director's Report is other information and is ordinarily received before the auditor's report date, and in these circumstances audit reports on financial reports of non-listed entities should include an other information section. Note that this is also applicable for auditor's reports on special purpose financial reports.

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<sup>4</sup> *Corporations Act 2001*, section 300A

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	9.1
<b>Meeting date:</b>	25 October 2017
<b>Subject:</b>	Examination of prospective financial information
<b>Date:</b>	13 October 2017
<b>Prepared by:</b>	Sharon Walker

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### Agenda Item Objectives

1. The objective for this agenda item is:
  - For the Board to CONSIDER and APPROVE the draft project proposal to develop an assurance standard on the examination of prospective financial information at agenda item 9.2.

### Background

2. Local government entities are required to prepare long term plans, on a three yearly cycle, that include prospective financial information covering the 10 year period of the plan. Such prospective financial information is to be audited. Currently, long term plans are audited in accordance with the Auditor General's auditing standards, ISAE 3000 (Revised), *Assurance Engagements Other than Audits and Reviews of Historical Financial Information*, and ISAE 3400, *The Examination of Prospective Financial Information*.
3. ISAE 3400 is more than 20 years old and has not been revised in line with the conventions used in ISAE 3000 (Revised) or to reflect the IAASB'S clarity drafting conventions. There are no current plans for the IAASB to revise ISAE 3400.
4. There is currently no standard on prospective financial information in the New Zealand suite of standards. An assurance standard on prospective financial information is relevant for both listed entities and in the public sector.
5. The NZAuASB's strategic action plan for the five year period 2017-2022, includes:

#### Action 1B.2 Developing an Assurance Standard on the Examination of Prospective Financial Information

The NZAuASB will develop an assurance standard for other assurance engagements involving the examination of prospective information.

The standard will be developed in accordance with due process for domestic standards and in collaboration with the AUASB as appropriate.

**Matters for Consideration**

6. The NZAuASB is asked to CONSIDER and APPROVE the draft project proposal at Agenda Item 9.2.

**Material Presented**

Agenda item 9.1	Board Meeting Summary Paper
Agenda item 9.2	Draft Project Proposal



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## Project Plan

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<b>Project Title:</b>	Prospective Financial Information
<b>Project Objective(s):</b>	Develop a standard for performance of and reporting on prospective financial information
<b>Priority:</b>	Medium
<b>Issue/Reason:</b>	
<b>Date Prepared:</b>	11 October 2017
<b>Date Approved:</b>	
<b>Date Updated: (if applicable)</b>	

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### Project Objectives

1. To develop a standard for the performance of and reporting on prospective financial information.

### Background

2. Local government entities are required to prepare long term plans, on a three yearly cycle, that include prospective financial information covering the 10 year period of the plan. Such prospective financial information is to be audited. Currently, long term plans are audited in accordance with the Auditor General's auditing standards, ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits and Reviews of Historical Financial Information*, and ISAE 3400, *The Examination of Prospective Financial Information*.
3. In addition, firms are increasingly being requested to undertake assurance engagements that include prospective financial information.
4. ISAE 3400 is more than 20 years old and has not been revised in line with the conventions used in ISAE 3000 (Revised) or to reflect the IAASB's clarity drafting conventions. At this time, there are no current plans for the IAASB to revise ISAE 3400.

### International

5. International Standard on Assurance Engagements (ISAE) 3400, *The Examination of Prospective Financial Information*, (previously ISA 810), establishes standards and provides guidance on engagements to examine and report on prospective financial information, including examination procedures for best-estimate and hypothetical assumptions. ISAE 3400 predates the IAASB's clarity project and the issue of ISAE 3000 (Revised), *Assurance Engagements Other than Audits and Reviews of Historical Financial Information*.

### Australia

6. The AUASB issued Standard on Assurance Engagements (ASAE) 3450, *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, in November 2012. ASAE 3450 deals with the responsibilities of the assurance practitioner when undertaking an engagement to report on the responsible party's preparation of financial information related to a corporate fundraising, or if the financial information is prospective, if it is prepared for another purpose. ASAE 3450 builds on the requirements and application material

included in either ASAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, or ASRE 2405, *Review of Historical Financial Information Other than a Financial Report*, in an assurance or review engagement respectively.

### Risks/Issues

Issues which may impact the drafting of the standard include the following:

7. Harmonisation with the current AUASB standard, ASAE 3450.
8. The scope of ASAE 3450 addresses more than prospective financial information. Consideration needs to be given as to whether the scope of ASAE 3450 is broader than intended by the Board.
9. The ISAE is out of date and needs to be revised. It therefore may not be the best starting point. Given the XRB is a standard taker rather than a standard maker, we suggest starting with ASAE 3450, amending as necessary to reflect the NZ environment.

### Action Plan

10. The project will involve the following key steps:
  1. Considering the need for a sub-committee of the Board to develop the draft standard to meet as required.
  2. Developing a reference group (if considered necessary by the Board) to assist with the project by identifying key issues to be addressed and field testing ideas as they develop. The reference group would meet as required. Such reference group would include broad representation.
  3. Develop a first draft of a standard, based on ASAE 3450, amended as necessary to reflect local regulatory conditions and practices.
  4. Further refine the standard following the Board's feedback.
  5. Expose a draft standard.
  6. Obtain and collate comments, and obtain the Board's approval of amendments to address comments.
  7. Final approval obtained from the Board to issue a new standard.
  8. Quality assurance to be conducted prior to issuing.
  9. Release standard with Communique alert and any other explanatory statements as required.
  10. Consider the need for further education sessions once the final standard is released.

### Timetable

11. It is anticipated that it will take about 15 months to develop and finalise the standard. Indicative timings are as follows:

Description	Proposed Date
NZAuASB approves project plan at Board meeting	25 October 2017
NZAuASB to consider initial issues to explore.	February 2017

Establishment of a reference group (if needed)	Q1 2018 (to meet as required)
Establishment of a sub-committee of the NZAuASB to assist in developing ideas and recommendations to present to the NZAuASB (if needed)	Q1 2018(to meet as required)
NZAuASB to consider key issues and draft document	April 2018
Approval of NZAuASB exposure draft	June 2018
Exposure draft open for comment	June – Sept 2018
Consideration of submissions	Oct 2018
Read and Approval of final standard	Dec 2018

DRAFT

## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	10.1
<b>Meeting date:</b>	25 October 2017
<b>Subject:</b>	IESBA Exposure Draft: Inducements
<b>Date:</b>	12 October 20107
<b>Prepared by:</b>	Sharon Walker

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### Agenda Item Objectives

1. The objective for this agenda item is:
  - For the Board to CONSIDER and tentatively APPROVE, subject to feedback from the Board and constituents, the draft submission on the IESBA Exposure Draft, *Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements*.

### Background

2. The International Ethics Standards Board for Accountants (IESBA) has issued an Exposure Draft proposing to revise provisions of the extant Code pertaining to the offering and accepting of inducements by professional accountants in business and professional accountants in public practice, and to make conforming amendments to the independence provisions relating to gifts and hospitality.
3. The revised provisions and conforming amendments are drafted using the proposed new structure and drafting conventions for the Code.
4. Submissions to IESBA on the Exposure Draft are due on 8 December 2017. A communique was sent to constituents on 21 September, requesting comments to the NZAuASB by 8 November 2017.
5. The IESBA Code applies to all professional accountants. Professional and Ethical Standard 1 (Revised) (PES 1 (Revised)), *Code of Ethics for Assurance Practitioners*, applies to assurance practitioners performing an assurance engagement. The IESBA Code, therefore, has a much broader application than PES 1 (Revised).

### Key Enhancements

6. In the extant Code, the provisions pertaining to inducements have largely been focussed on professional accountants in business. The proposals seek to align the provisions relating to

professional accountants in public practice with those pertaining to professional accountants in business.

7. Inducements are described as “an object, situation or action that is used as a means to influence another individual’s behaviour”. Inducements include gifts and hospitality. The IESBA intends this description to be broad and neutral, and not necessarily refer to situations where there is an intent to improperly influence the behaviour of another person.
8. Under the proposals, the professional accountant is required to apply the reasonable and informed third party test in considering whether the inducement has been made with improper intent. The professional accountant shall not accept, or encourage others to accept, any inducement that the accountant has reason to believe is made, or believes a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the recipient’s behaviour.
9. When the professional accountant concludes the inducement is not made with improper intent, unless the inducement is trivial and inconsequential, the professional accountant applies the conceptual framework to identify, evaluate and address threats to the fundamental principles by the offering or accepting of inducements.
10. The provisions also require that the professional accountant consider inducements made to immediate or close family members. The professional accountant’s consideration of the nature and closeness of the relationship applies to both the type of relationship (for example, siblings and parents and children) and also the degree of connection between the parties. The professional accountant is required to remain alert to potential threats and has a responsibility to advise a close family member not to offer or accept an inducement where the professional accountant believes there is intent to improperly influence.
11. The proposals are intended to apply to both existing and potential clients.
12. Conforming amendments are proposed to the independence standards to create a link between the requirements in Section 340<sup>1</sup> and the independence standards in Part 4A, Section 420<sup>2</sup> and Part 4B, Section 906<sup>3</sup>.

#### **Matters Addressed in the NZAuASB Submission**

13. The NZAuASB draft submission (see agenda item 10.2) is limited in its response to the proposals, addressing only those that affect assurance practitioners (Sections 340, 420 and 906).
14. Overall, the submission expresses support for the proposals to enhance the provisions of the Code pertaining to the offering and accepting of inducements. Specifically, the submission notes support for:
  - Alignment of the provisions for professional accountants in public practice with the provisions for professional accountants in business.
  - Inducements, of any size, made or perceived to be made with improper intent create a threat to the fundamental principles that cannot be overcome.

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<sup>1</sup> Part 3 – Professional Accountants in Public Practice, Section 340, *Inducements, Including Gifts and Hospitality*

<sup>2</sup> Independence for Audits and Reviews, *Gifts and Hospitality*

<sup>3</sup> Independence for Other Assurance Engagements, *Gifts and Hospitality*

15. The submission requests some guidance around the notion of trivial and inconsequential as it relates to inducements. We note that what is trivial and inconsequential to one party may not be to another. In this regard, we also note that the reasonable and informed third party test should be applied as in an assurance engagement; the perception the inducement creates is key.
16. Regarding the conforming amendments, we express concern that the proposed conforming amendments to the independence provisions in the Code do not adequately create the linkage with Section 340. Furthermore, the independence provisions continue to focus on the acceptance of only gifts and hospitality whereas Section 340 defines inducements to include gifts and hospitality. This inconsistency may create a level of confusion and inconsistency in the application the Code. Accepting or offering any form of inducement from/to an audit or review client will create a threat to independence. Accordingly, we recommend that Sections 420 and 906 be broadened at this time to apply to inducements, including gifts and hospitality.
17. We recommend that the requirements in Sections 420 and 906 also explicitly state that when there is improper intent, the firm, network firm or audit (or review) team shall not accepts [inducements, including] gifts and hospitality even when the value is trivial and inconsequential.

Does the Board agree with the matters addressed in the draft submission?
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**Matters for Consideration**

18. The NZAuASB is asked to CONSIDER and tentatively APPROVE, subject to Board feedback and constituent comment, the draft submission at Agenda Item 10.2.

**Material Presented**

Agenda item 10.1	Board Meeting Summary Paper
Agenda item 10.2	Draft Submission
Agenda item 10.3	IESBA Exposure Draft

8 December 2017

Ken Siong  
Technical Director  
International Ethics Standards Board for Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, 10017  
USA

Dear Ken,

***IESBA Exposure Draft – Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements***

Thank you for the opportunity to comment on the IESBA exposure draft *Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements*. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB).

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards, including ethical standards for assurance practitioners.

The NZAuASB's mandate is limited to developing and issuing auditing and assurance standards, including ethical standards for assurance practitioners. This applies only to professional accountants in their role as assurance practitioners. Accordingly, our consideration of the proposals is limited in this regard.

**Overall comment**

The NZAuASB is supportive of the proposals to enhance the provisions in the Code pertaining to the offering and accepting of inducements. The NZAuASB agrees that it is likely that circumstances the professional accountant in public practice encounters involving inducements that might create threats to compliance with the fundamental principles would be similar to those encountered by professional accountants in business. Accordingly, the NZAuASB supports alignment of the provisions for professional accountants in public practice with those of professional accountants in business. Further, the NZAuASB fully supports the notion that accepting or offering any inducement with improper intent would create a threat to the fundamental principles that cannot be overcome such that there should be no exceptions for inducements that are considered to be trivial or inconsequential.

As noted in our response to question 3, we do, however, have concerns that the independence provisions in Parts 4A and 4B could be better aligned with the provisions in Section 340.

In formulating this response, the NZAuASB sought input from New Zealand constituents.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk ([sylvia.vandyk@xrb.govt.nz](mailto:sylvia.vandyk@xrb.govt.nz)).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Robert Buchanan', with a long horizontal flourish extending to the right.

**Robert Buchanan**

**Chairman**

Email: [robert@buchananlaw.co.nz](mailto:robert@buchananlaw.co.nz)



## Submission of the New Zealand Auditing and Assurance Standards Board

### IESBA Exposure Draft *Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements*

#### Schedule of Responses to the IESBA's Specific Questions

##### *Proposed Section 250*

- 1. Do respondents support the proposals in Section 250? In particular, do respondents support the proposed guidance to determine whether there is an intent to improperly influence behaviour, and how it is articulated in the proposals?**

**Response:**

The mandate of the NZAuASB is to set auditing and assurance standards, including professional and ethical standards, for assurance practitioners applicable in the provision of an assurance engagement. Accordingly, the NZAuASB makes no comment on the provisions applicable to professional accountants in business.

##### *Proposed Section 340*

- 2. Do respondents agree that the proposed provisions relating to inducements for PAPPs should be aligned with the enhanced provisions for PAIBs in proposed Section 250? If so, do respondents agree that the proposals in Section 340 achieve this objective?**

**Response:**

The professional accountant in public practice (PAPP) may be confronted with similar circumstances relating to inducements as a professional accountant in business (PAIB). Accordingly, the NZAuASB agrees with the proposals to align the provisions relating to inducements for PAPPs with the enhanced provisions for PAIBs.

The NZAuASB fully supports the proposed inclusion of the "intent" test in the proposals. From the perspective of an assurance practitioner in the provision of an assurance engagement, it is critical that the provisions address the perceived intent.

The proposals use "trivial and inconsequential" to set the bar for determining the professional accountant's response to the inducement (see paragraph 340.10 A1). However, there is no definition of trivial and inconsequential, and the NZAuASB recommends that the IESBA include some guidance around the meaning of trivial and inconsequential. What is trivial and inconsequential to one party may not be trivial and inconsequential to another party. We believe that in this regard, the reasonable and informed third party test is also applicable. Particularly, in an assurance engagement, the perception that the inducement creates is key to the assurance practitioner's consideration of whether the inducement is trivial and inconsequential.

In paragraph 340.11 A1 (c), the NZAuASB believes the example provided illustrates a threat to the integrity of the professional accountant rather than an intimidation threat.

In paragraph 340.11 A3, the NZAuASB recommends adding that there is no safeguard sufficient to address a threat to the professional accountant's integrity.

*Proposed Conforming Amendments to Independence Provisions*

**3. Do respondents support the restructuring changes and proposed conforming amendments in proposed Sections 420 and 906?**

**Response:**

The NZAuASB is concerned that the proposed conforming amendments to sections 420 and 906 do not adequately create the required linkage with Section 340. Paragraph 41 of the explanatory memorandum clearly explains the interaction between Section 340 and Sections 420 and 906. However, this interaction is not clear from the proposed conforming amendments.

Furthermore, Sections 420 and 906 address only gifts and hospitality. Section 340 is titled "Inducements, including gifts and hospitality." Further, gifts and hospitality are provided as examples of inducements in paragraph 340.4 A1. Accepting or offering any form of inducement to an assurance client will create a threat to independence. Accordingly, the NZAuASB believes that it is necessary and appropriate for the conforming amendments to Section 420 and 906 to address inducements. Defining inducements to include gifts and hospitality, but not addressing inducements as a group in Section 420 and 906 creates confusion and inconsistency. Creating a clear linkage between Section 340 and Sections 420 and 906 along with expanding Sections 420 and 906 to address all inducements allow consistent application of the provisions and remove any inconsistency.

Further, we recommend that paragraphs R420.4 and R906.4 are amended to explicitly state that when there is improper intent, the firm, network firm or audit (or review) team shall not accept gifts and hospitality even when the value is trivial and inconsequential.

**4. Do respondents believe the IESBA should consider a project in the future to achieve further alignment of Sections 420 and 906 with proposed Section 340? If so, please explain why.**

**Response:**

As noted in the response to question 3, offering or accepting any form of inducement to an assurance client will create a threat to independence. The NZAuASB believes that conforming amendments to Sections 420 and 906 are necessary at this time to better align these sections with Section 340.

## Exposure Draft

September 2017

*Comments due: December 8, 2017*

*International Ethics Standards Board  
for Accountants®*

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# Proposed Revisions to the Code Pertaining to the Offering and Accepting of Inducements

**IESBA**

International  
Ethics Standards  
Board for Accountants®



International  
Ethics Standards  
Board for Accountants®

This Exposure Draft was developed and approved by the International Ethics Standards Board for Accountants® (IESBA®).

The IESBA is a global independent standard-setting board. Its objective is to serve the public interest by setting high-quality ethics standards for professional accountants worldwide and by facilitating the convergence of international and national ethics standards, including auditor independence requirements, through the development of a robust, internationally appropriate *Code of Ethics for Professional Accountants™* (the Code).

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

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## REQUEST FOR COMMENTS

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. Comments are requested by **December 8, 2017**.

Respondents are asked to submit their comments electronically through the IESBA website, using the "[Submit a Comment](#)" link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Technical Director at [KenSiong@ethicsboard.org](mailto:KenSiong@ethicsboard.org).

This publication may be downloaded from the IESBA website: [www.ethicsboard.org](http://www.ethicsboard.org) . The approved text is published in the English language.

# PROPOSED REVISIONS TO THE CODE PERTAINING TO THE OFFERING AND ACCEPTING OF INDUCEMENTS

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# EXPLANATORY MEMORANDUM

## I. Introduction

1. This memorandum provides background to, and an explanation of, the proposed revisions to the extant Code regarding:
  - The offering and accepting of inducements by professional accountants in business<sup>1</sup> (PAIBs) and professional accountants in public practice<sup>2</sup> (PAPPs); and
  - Related conforming amendments to the independence provisions relating to gifts and hospitality.<sup>3</sup>
2. The IESBA approved these proposed changes for exposure at its June 2017 meeting.
3. The revised provisions, proposed Sections 250,<sup>4</sup> 340,<sup>5</sup> 420<sup>6</sup> and 906,<sup>7</sup> were drafted using the proposed new structure and drafting conventions for the Code.<sup>8</sup>

## II. Background

### Review of Part C of the Code Project

4. In early 2013, the IESBA approved the [Review of Part C of the Code Project](#) (Part C project) to strengthen extant Part C of the Code to better promote ethical behavior by PAIBs. This followed recommendations from a working group the IESBA had established to study reported accounting irregularities at certain companies and to survey a number of IFAC member organizations regarding the types of ethical issues on which their members in business most often seek guidance and assistance.
5. The IESBA agreed to approach the review of extant Part C in two phases:
  - Phase 1, which addressed mainly the topics of pressure to breach the fundamental principles, and the preparation and presentation of information. The IESBA completed Phase 1 in December 2015 with the approval of the close-off document [Changes to Part C of the Code Addressing Preparation and Presentation of Information, and Pressure to Breach the Fundamental Principles](#) (Part C close-off document). This includes revisions to extant Section 320<sup>9</sup>, a new Section 370<sup>10</sup> and conforming amendments to other sections of Part C. Those

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<sup>1</sup> Extant Part C – Professional Accountants in Business, Section 350, *Inducements*

<sup>2</sup> Extant Part B – Professional Accountants in Public Practice, Section 260, *Gifts and Hospitality*

<sup>3</sup> Extant Part B, Section 290, *Independence – Audit and Review Engagements*, paragraph 290.225 and Section 291, *Independence – Other Assurance Engagements*, paragraph 291.155

<sup>4</sup> Proposed restructured Code, Part 2 – Professional Accountants in Business, Section 250, *Inducements, Including Gifts and Hospitality*

<sup>5</sup> Proposed restructured Code, Part 3 – Professional Accountants in Public Practice, Section 340, *Inducements, Including Gifts and Hospitality*

<sup>6</sup> Proposed restructured Code, Part 4A – Independence – Audit and Review Engagements, Section 420, *Gifts and Hospitality*

<sup>7</sup> Proposed restructured Code, Part 4B – Independence – Other Assurance Engagements, Section 906, *Gifts and Hospitality*

<sup>8</sup> The IESBA will make any necessary structural and drafting refinements to the provisions once the structure and drafting conventions have been finalized.

<sup>9</sup> Extant Part C, Section 320, *Preparation and Reporting of Information*

<sup>10</sup> Extant Part C, Section 370, *Pressure to Breach the Fundamental Principles*

revisions were drafted in accordance with the structure and drafting conventions of the extant Code.

- Phase 2 which involves a review of the provisions relating to inducements in the extant Code.

### *Phase 1*

#### Restructuring

6. As part of its project to restructure the Code for greater understandability and usability (the Structure of the Code project), the IESBA issued for exposure in January 2017, *inter alia*, the proposed restructured text for the Part C close-off document. These proposals are included in the January 2017 Exposure Draft (ED), [\*Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2\*](#) (Structure ED-2). As part of the restructuring of the Code, the IESBA has renumbered Parts B and C of the extant Code to Parts 3 and 2, respectively, of the restructured Code. The proposals in Structure ED-2 also include proposed conforming amendments arising from the IESBA's Safeguards project (see ED, [\*Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments\*](#) (Safeguards ED-2)). The restructuring of the Code is not intended to change its meaning. The IESBA anticipates finalizing the Structure of the Code project in December 2017.
7. The IESBA has determined that the revisions relating to Phase 1 of the Part C project will become effective at the same time as the proposed restructured Code.

#### Applicability of Extant Part C to PAPPs

8. As part of its review of extant Part C, the IESBA resolved to address questions that arose during its deliberations in Phase 1 of the project about the applicability of the provisions in Part C to PAPPs, i.e., professional accountants in firms who provide professional services to clients. In January 2017, the IESBA issued the ED, [\*Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice\*](#) (Applicability ED). The Applicability ED includes proposals to add certain “applicability paragraphs” to the Code to clarify the circumstances in which the revised Phase 1 provisions should also apply to PAPPs. The IESBA anticipates finalizing the applicability paragraphs at the same time as the proposed restructured Code in December 2017.

### *Phase 2*

9. The review of the inducement provisions in the Code commenced in early 2015 and involved:
  - A consideration of literature and guidance material from other organizations regarding the offering and accepting of different forms of inducements. This included consideration of information from Transparency International UK on bribery of government officials and corruption.
  - A “gap analysis” of extant Section 350 to identify whether and how enhancements could be made to the Code.
10. Amongst other matters, the scope of Phase 2 of the project includes a consideration of revisions to:
  - Enhance the description of an inducement in the extant Code.
  - Respond to continuing concerns about the prevalence of bribery and corruption and facilitation payments, and determine how the Code should address these matters.



- Provide additional guidance in the Code that takes into account the role of culture in determining whether the offering or accepting of an inducement creates threats to compliance with the fundamental principles.
- Consider the need for symmetry between the provisions for PAIBs in Section 350 under Part C of the extant Code and those for PAPPs in Section 260 under Part B.

### III. Significant Matters

#### Objective of Phase 2 of the Project

11. The objective of Phase 2 of the project is to strengthen the provisions in extant Part C to assist PAIBs in better dealing with the offering and accepting of inducements while complying with the fundamental principles, in particular the principles of integrity, objectivity and professional behavior.

#### Highlights of Proposals

12. The proposed revisions, amongst other matters:
  - Clarify the description of the term “inducement” and provide additional examples of inducements.
  - Emphasize professional accountants’ responsibilities to comply with relevant laws and regulations relating to bribery and corruption when offering or being offered inducements.
  - Prohibit the offering and accepting of inducements by professional accountants that are made with intent to improperly influence the behavior of the recipients.
  - Clarify how the conceptual framework set out in Section 120<sup>11</sup> should be applied to identify, evaluate and address threats to compliance with the fundamental principles created by the offering and accepting of inducements.
  - Provide additional guidance on the offering and accepting of inducements by immediate or close family members.
  - Align the provisions relating to inducements for PAPPs (Part 3 of the restructured Code) with the enhanced provisions for PAIBs (Part 2 of the restructured Code).

#### *General Approach to Dealing with Inducements*

13. Professional accountants are required to comply with the fundamental principles in relation to the offering or accepting of an inducement. The proposals take the following structured and logical approach in this regard:
  - A professional accountant is required to understand and comply with relevant laws and regulations that relate to bribery and corruption when offering or being offered an inducement.
  - Where an inducement is not prohibited by laws or regulations, the professional accountant should:

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<sup>11</sup> Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, Section 120, *The Conceptual Framework*

- (i) Determine whether there is actual or perceived intent to improperly influence the behavior of the recipient. If there is such actual or perceived intent, the Code would prohibit offering or accepting the inducement even if it is trivial and inconsequential.
  - (ii) In the absence of actual or perceived intent to improperly influence behavior and unless the inducement is trivial and inconsequential, apply the conceptual framework set out in Section 120 to identify, evaluate and address any threats to compliance with the fundamental principles that might be created.
14. To avoid repetition, the IESBA proposes to address the offering and accepting of inducements simultaneously within the provisions.

## **Key Revisions**

### *Description of Inducement*

15. The IESBA determined that the term “inducement” in the context of the Code should be broad and neutral and should not necessarily refer to situations when there is an intent to improperly influence the behavior of another person. Whilst acknowledging that the term is often used in contexts that have negative connotations, the IESBA is of the view that an inducement can also be used to influence another person to act in a manner that is not unethical.
16. In discussion with stakeholders, including the IESBA Consultative Advisory Group (CAG), during the development of the proposals, the IESBA noted a concern among some about using the word “inducements”. There was a view that the term is understood by some as having a negative connotation. The IESBA believes that this concern could be addressed by providing a description of “inducements.” Accordingly, the proposed application material clarifies that an inducement:
  - Is an object, situation or action that is used as a means to influence another individual’s behavior.
  - Is not necessarily used with the intent to improperly influence an individual’s behavior.
  - Can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations.
17. The proposed application material also includes additional examples of inducements (see paragraphs 250.4 A1 and 340.4 A1).
18. As a practical matter, the IESBA noted that the terms “gifts” and “hospitality” are often used when searching for guidance on the topic in the Code. Accordingly, the IESBA added these terms to the proposed titles for Sections 250 and 340.

### *Bribery and Corruption*

19. Whilst illegal inducements are not the focus of these sections, the IESBA is of the view that bribery and corruption are topical issues of continuing public interest. Accordingly, the IESBA proposes that professional accountants be:
  - (a) Reminded of the importance of complying with relevant laws and regulations (see paragraphs 250.3 and 340.3); and
  - (b) Explicitly required to obtain an understanding of relevant laws and regulations that prohibit the offering or accepting of inducements related to bribery and corruption and comply with them (see paragraphs R250.5 and R340.5).

20. The proposed requirement in Sections 250 and 340 has been drafted in a sufficiently broad manner to accommodate both jurisdictional and extra-territorial legislation that may apply. The proposed requirements are also intended to cover other illegal inducements (such as facilitation payments in some jurisdictions) that are not necessarily defined as bribery and corruption but nonetheless could be prohibited by law.
21. In response to comments from some Representatives of the IESBA CAG, the IESBA deliberated the need to define bribery and corruption. The IESBA concluded that the inclusion of an “intent” test in the proposals obviates the need to define such terms. The IESBA noted that the intent test significantly raises the bar of acceptable ethical behavior by professional accountants, and more so than attempting to define bribery and corruption. For instance, the offering of any inducement that is intended to improperly influence the behavior of a professional accountant, even if not prohibited by law or regulation, would be prohibited under the proposals. The IESBA also noted that definitions of bribery and corruption may vary from jurisdiction to jurisdiction. Accordingly, establishing a definition of these terms in a global Code could create confusion in how the Code should be applied in a local setting. In forming this view, the IESBA also considered whether to include a reference to external definitions of bribery and corruption. The IESBA concluded that this option was not feasible as there does not appear to be any globally accepted definitions of these terms.

*Prohibition on Inducements with Intent to Improperly Influence Behavior*

22. The IESBA is of the view that intent is a key principle in applying the conceptual framework when dealing with inducements. Accordingly, it is necessary under proposed Sections 250 and 340 for a professional accountant to first determine if an inducement is made with actual or perceived intent to improperly influence the behavior of the recipient (improper intent). The IESBA believes that there are no safeguards that can reduce threats created by inducements with improper intent (including those that are trivial and inconsequential) to an acceptable level. The IESBA therefore proposes that both sections prohibit professional accountants from offering or accepting such inducements (see paragraphs R250.7 to R250.8 and R340.7 to R340.8).
23. Determining whether there is improper intent requires the exercise of professional judgment. To facilitate the exercise of this judgment, the IESBA proposes a list of factors for professional accountants to consider in determining whether there is actual or perceived improper intent. Since no one other than the person offering an inducement knows whether there is intent, the IESBA believes that it is also necessary for the professional accountants to objectively consider how offering or accepting the inducement might be perceived by others. The IESBA proposes that this consideration be made through the reasonable and informed third party lens.
24. The IESBA deliberated whether it is acceptable to offer or accept an inducement that is “trivial and inconsequential” if it is made with improper intent. The IESBA noted that academic research indicates that even a gift having little intrinsic value might still affect the recipient’s behavior. On this basis, the IESBA proposes that as a matter of principle no exceptions should be made in this regard.

*Identifying, Evaluating and Addressing threats Created by Inducements with No Improper Intent*

25. The proposals clarify that professional accountants are required to apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to the fundamental principles created by the offering or accepting inducements that are not:
  - Illegal;

- Made with actual or perceived improper intent; and
  - Trivial and inconsequential.
26. The proposals include:
- Examples of self-interest, familiarity and intimidation threats that might be created by offering or accepting such an inducement (see paragraphs 250.11 A1 and 340.11 A1).
  - Guidance to assist professional accountants' evaluation of the level of threats created by offering or accepting such an inducement (see paragraphs 250.11 A2 and 340.11 A2). In developing this guidance, the IESBA came to the view that the factors for determining whether there is actual or perceived improper intent behind an inducement apply equally to evaluating the level of threats created by the offering or accepting of an inducement with no improper intent.
  - Examples of actions that might be safeguards to address the related threats or that might eliminate the threats (see paragraphs 250.11 A3 to 250.11 A4 and 340.11 A3 to 340.11 A4).
27. An example of an action that might be a safeguard is donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to those charged with governance or the individual who offered the inducement. While this action is provided as an example, the IESBA acknowledged that it may not be appropriate in some jurisdictions to disclose a donation to the individual or organization that offered the inducement to the professional accountant.
28. Notwithstanding the above proposed guidance, the IESBA believes that threats can also be addressed if the professional accountant simply does not offer or accept the inducement. As this option is always available to the professional accountant, consistent with eliminating the circumstances creating the threats under the conceptual framework, the IESBA does not believe there is a need to explicitly state it in the Code.

#### Cultural Differences

29. The IESBA acknowledges that cultural differences can play a role in determining whether it is ethical for a professional accountant to offer or accept an inducement and has considered whether to provide further guidance in this respect. The IESBA observed that while cultures vary across jurisdictions and influence what constitutes an acceptable inducement, often the ethical considerations are the same. The IESBA believes that a principles-based approach to addressing inducements that leverages the conceptual framework provides a sufficient and comprehensive basis to dealing with ethical questions and dilemmas relating to inducements, regardless of the cultural context. Accordingly, the IESBA does not see a need for guidance to address cultural differences.
30. Additionally, the IESBA noted that the reasonable and informed third party test is relevant in evaluating the level of threats to compliance with the fundamental principles created by an inducement with no improper intent. This test by definition involves a consideration of all relevant facts and circumstances, which might include cultural differences. Nevertheless, the IESBA agreed that cultural differences cannot be used as an excuse for unethical behavior, including with respect to inducements.

#### Immediate or Close Family Members

31. Similar to the extant Code, the proposals acknowledge that inducements may be offered by or to an immediate or close family member of a professional accountant. In such cases, threats to compliance

with the fundamental principles might also be created. In deliberating the revisions to the extant Code, the IESBA determined it necessary to expand the guidance in this area.

32. The proposals require a professional accountant to remain alert to potential threats to the accountant's compliance with the fundamental principles created by inducements that are offered by or to the accountant's immediate or close family member (see paragraphs R250.12 and R340.12). Proposed Sections 250 and 340 also impose a responsibility on professional accountants to advise the immediate and close family member not to offer or accept the inducement where the accountant has reason to believe there is intent to improperly influence the behavior of either the accountant or the counterparty with whom the accountant has a business relationship (see paragraphs R250.13 and R340.13).
33. Remaining alert to potential threats to compliance with the fundamental principles created by inducements that are offered by or to an immediate or close family member means that the professional accountant cannot ignore such situations, but also does not demand comprehensive knowledge of such situations.
34. The proposals explain that the list of factors in paragraphs 250.9 A1 and 340.9 A1 for determining whether there is improper intent is also relevant to determining whether there is actual or perceived intent to improperly influence behavior of the professional accountant or the counterparty (or in the case of PAPPs, the client) when an immediate or close family member of the professional accountant is involved. In addition, the proposals include as a factor consideration of the nature or closeness of the relationships between:
  - The professional accountant and the immediate or close family member
  - The immediate or close family member and the counterparty; and
  - The accountant and the counterparty (See paragraphs 250.13 A1 and 340.13 A1).
35. The IESBA intends the term "nature or closeness" to cover not only the type of relationship (e.g. siblings and parents and children) but also the degree of connection between the two parties in the relationship. For instance, the IESBA expects that the impact of an inducement offered to a professional accountant's brother will be greater if they have a close relationship.

**Alignment of Inducement Provisions for PAIBs and PAPPs**

36. The IESBA determined that the proposed enhancements to the inducement provisions in extant Part C should also be applicable to PAPPs. This is because it is likely that circumstances PAPPs encounter involving inducements that might create threats to compliance with the fundamental principles would be similar to those encountered by PAIBs. Therefore, the IESBA proposes that Section 340 be aligned with proposed Section 250 to provide PAPPs with equally robust provisions and guidance.
37. In aligning proposed Section 340 with proposed Section 250, the IESBA has:
  - Tailored the terminology and examples for the PAPP context.
  - Included in the subsection titled "Other Considerations" a reference to the requirements addressing gifts and hospitality in the proposed International Independence Standards (i.e., proposed Sections 420 and 906). This reference reminds PAPPs of the additional requirement that applies in relation to the accepting of gifts and hospitality from an audit, review or other assurance client.

38. Whilst the IESBA agreed that, for the purposes of Section 340, when a PAPP offers or accepts an inducement the counterparty would generally be a client, the proposed requirements are intended to capture both existing and potential clients.

### **Restructuring Changes and Conforming Amendments to the Independence Provisions**

39. Most of the changes to the independence provisions in proposed Sections 420 and 906 relate to restructuring the material in the extant Code.<sup>12</sup> However, there is also a need for limited conforming amendments arising from the enhancements to the inducements provisions for PAPPs in proposed Section 340.
40. Whereas proposed Section 340 establishes requirements and provides guidance regarding both offering and accepting inducements (including gifts and hospitality) that are broad, the provisions in the independence sections of the Code continue to focus on the accepting of gifts or hospitality from an audit, review or other assurance client.
41. The interaction of proposed Section 340 with Sections 420 and 906 means that:
- Auditors and assurance practitioners would be prohibited from accepting gifts and hospitality from audit and assurance clients unless the value is trivial and inconsequential.
  - While Sections 420 and 906 do not prohibit auditors and assurance practitioners from accepting gifts and hospitality from audit and assurance clients that are trivial and inconsequential, they should still apply Section 340 to determine whether such gifts and hospitality can be accepted. If they determine that the trivial and inconsequential gift or hospitality is being offered with improper intent, Section 340 would prohibit them from accepting that gift or hospitality.
  - If an auditor or assurance practitioner is offering an inducement to an audit or assurance client, the auditor or assurance practitioner should apply the provisions in proposed Section 340 in determining whether it can be offered.
  - If an auditor or assurance practitioner is offered an inducement other than a gift or hospitality from an audit or assurance client, the auditor or assurance practitioner should apply the provisions in proposed Section 340 in determining whether it can be accepted. If an immediate or close family member of an auditor or assurance practitioner is offered any inducement, including a gift or hospitality, from an audit or assurance client, the auditor or assurance practitioner should apply the related provisions in proposed Section 340.
42. In deliberating the proposed conforming amendments to Sections 420 and 906, the IESBA considered whether further changes should be made to the independence provisions to more closely align them to the enhanced provisions and concepts in Section 340. The IESBA determined that a consideration of whether to undertake such a review went beyond the scope of the Part C project. Accordingly, the IESBA agreed that such a matter might be for future consideration.

## **IV. Analysis of Overall Impact of the Proposed Changes**

43. The IESBA believes that the proposals represent a significant strengthening of the extant provisions and guidance relating to the offering and accepting of inducements, and will contribute to further

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<sup>12</sup> Part B, paragraphs 290.225 and 291.155

enhancing public trust in the profession.

44. The IESBA does not anticipate significant implementation costs for professional accountants and firms beyond usual implementation and maintenance costs that firms might incur in internal awareness and training initiatives and in updating their internal policies and methodologies to reflect changes to the Code. As those revisions are being proposed during a timeframe that overlaps with the timeline for completing the restructuring of the Code, some synergies and cost efficiencies might be realized.

## V. Project Timetable and Effective Date

45. The IESBA anticipates finalizing Phase 2 of the Part C project by the first half of 2018. The IESBA has not yet reached a decision on the effective date for the revised inducements provisions in Parts 2, 3, 4A and 4B but will do so in the context of its deliberations on the effective date for the restructured Code. The IESBA will communicate its decision to stakeholders in that regard in due course.

## VI. Guide for Respondents

46. The IESBA welcomes comments on all matters addressed in this ED, but especially those identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

### Request for Specific Comments

#### *Proposed Section 250*

1. Do respondents support the proposals in Section 250? In particular, do respondents support the proposed guidance to determine whether there is an intent to improperly influence behavior, and how it is articulated in the proposals?

#### *Proposed Section 340*

2. Do respondents agree that the proposed provisions relating to inducements for PAPPs should be aligned with the enhanced provisions for PAIBs in proposed Section 250? If so, do respondents agree that the proposals in Section 340 achieve this objective?

#### *Proposed Conforming Amendments to Independence Provisions*

3. Do respondents support the restructuring changes and proposed conforming amendments in proposed Sections 420 and 906?
4. Do respondents believe the IESBA should consider a project in the future to achieve further alignment of Sections 402 and 906 with proposed Section 340? If so, please explain why.

### Request for General Comments

47. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:
- *Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.

## EXPLANATORY MEMORANDUM

- *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.
- *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.
- *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.



# EXPOSURE DRAFT: PROPOSED REVISIONS TO THE CODE PERTAINING TO THE OFFERING AND ACCEPTING OF INDUCEMENTS

## PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

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### Section 250

#### Inducements, Including Gifts and Hospitality

##### Introduction

- 250.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 250.2 The offering or accepting of inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, especially the principles of integrity, objectivity and professional behavior.
- 250.3 Section 250 sets out requirements and application material relevant to applying the conceptual framework in relation to the offering or accepting of inducements that does not constitute non-compliance with laws and regulations. This section also requires a professional accountant to comply with relevant laws and regulations when offering or accepting inducements.

##### Requirements and Application Material

###### General

- 250.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:
- Gifts.
  - Hospitality.
  - Entertainment.
  - Political or charitable donations.
  - Appeals to friendship and loyalty.
  - Employment opportunities.
  - Preferential treatment.
  - Facilitation payments.

###### Inducements Prohibited by Laws and Regulations

- R250.5** In many jurisdictions, there are laws and regulations related to bribery and corruption that prohibit the offering or accepting of inducements in certain circumstances. The professional accountant shall obtain an understanding of relevant laws and regulations and comply with them when the accountant encounters such circumstances.

## Inducements Not Prohibited by Laws and Regulations

250.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

### *Inducements with Intent to Improperly Influence Behavior*

**R250.7** A professional accountant shall not offer, or encourage others to offer, any inducement that is made, or which the accountant believes a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the recipient's behavior.

**R250.8** A professional accountant shall not accept, or encourage others to accept, any inducement that the accountant has reason to believe is made, or believes a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the recipient's behavior.

250.9 A1 Relevant factors to consider in determining whether there is actual or perceived intent to improperly influence behavior include:

- The nature, frequency and value of the inducement.
- Whether there is a special occasion that has given rise to the inducement, for example, whether it is customary practice in relation to a religious holiday or wedding.
- Whether the inducement is an ancillary part of a professional activity, for example, accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to the individual recipient or available to a broader group. The broader group might be internal or external to the employing organization, such as other customers or vendors.
- The roles and positions of the individuals offering or being offered the inducement.
- Whether the professional accountant knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the counterparty's employing organization.

### *Inducements with No Intent to Improperly Influence Behavior*

250.10 A1 Unless an inducement is trivial and inconsequential, the requirements and application material set out in the conceptual framework apply when a professional accountant believes there is no actual or perceived intent to improperly influence behavior.

250.11 A1 The following are examples where threats might be created from offering or accepting an inducement:

(a) Self-interest threats

- A professional accountant is offered hospitality from a vendor during a procurement process.

(b) Familiarity threats

- A professional accountant regularly takes a customer or supplier to sporting events.

(c) Intimidation threats

- A professional accountant accepts hospitality that would be perceived to be inappropriate were it to be publicly disclosed.

250.11 A2 The factors that are relevant in evaluating the level of any threats created by offering or accepting an inducement are the same factors set out in paragraph 250.9 A1 for determining intent.

250.11 A3 Examples of actions that might be safeguards to address threats created by offering or accepting an inducement include:

- Registering the inducement, whether offered or accepted, in a log monitored by senior management or those charged with governance for the purposes of transparency.
- Having an appropriate individual, who is not otherwise involved in the professional activity, review any work performed or decisions made by the professional accountant with respect to the individual or organization from which the accountant accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to those charged with governance or the individual who offered the inducement.

250.11 A4 An example of an action that might eliminate threats created by offering or accepting an inducement is transferring responsibility for any business-related decision involving the counterparty to another individual who the professional accountant has no reason to believe would be, or would be perceived to be, improperly influenced in making the decision.

### **Immediate or Close Family Members**

**R250.12** A professional accountant shall remain alert to potential threats to the accountant's compliance with the fundamental principles arising from an inducement being offered:

- (a) By an immediate or close family member of the accountant to a counterparty with whom the accountant has a professional relationship; or
- (b) To an immediate or close family member of the accountant by a counterparty with whom the accountant has a professional relationship.

**R250.13** Where the professional accountant has reason to believe there is intent to improperly influence the behavior of the accountant or the counterparty, or believes a reasonable and informed third party would be likely to conclude such intent exists, the accountant shall advise the immediate or close family member not to offer or accept the inducement.

250.13 A1 The factors set out in paragraph 250.9 A1 are relevant in determining whether there is actual or perceived intent to improperly influence the behavior of the professional accountant or the counterparty. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The professional accountant and the immediate or close family member;
- (b) The immediate or close family member and the counterparty; and
- (c) The accountant and the counterparty.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the professional accountant by a counterparty with whom the accountant is negotiating a significant contract might indicate such intent.

250.14 A1 Unless the inducement is trivial and inconsequential, the application material in paragraphs 250.10 A1 to 250.11 A4 is relevant for the purposes of identifying, evaluating and addressing threats where:

- (a) The immediate or close family member offers or accepts the inducement contrary to the advice of the professional accountant in accordance with R250.13; or
- (b) The accountant does not have reason to believe an actual or perceived intent to improperly influence the behavior of the accountant or the counterparty exists.

250.14 A2 Factors that are relevant in evaluating the level of threats in these circumstances include the nature or closeness of the relationships referred to in paragraph 250.13 A1.

### **Other Considerations**

250.15 A1 If a professional accountant encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by other individuals working for or under the direction of the employing organization, Section 260 is also relevant.

250.15 A2 If a professional accountant faces pressure to offer or accept inducements that might create threats to compliance with the fundamental principles, Section 270 is also relevant.

250.15 A3 If a professional accountant is offered an inducement by the employing organization relating to financial interests, compensation and incentives linked to performance, Section 240 is also relevant.

## **PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

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### **Section 340**

#### **Inducements, Including Gifts and Hospitality**

##### **Introduction**

- 340.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 340.2 The offering or accepting of inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, especially the principles of integrity, objectivity and professional behavior.
- 340.3 Section 340 sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements that does not constitute non-compliance with laws and regulations. This section also requires a professional accountant to comply with relevant laws and regulations when offering or accepting inducements.

##### **Requirements and Application Material**

###### **General**

- 340.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between professional accountants and clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:
- Gifts.
  - Hospitality.
  - Entertainment.
  - Political or charitable donations.
  - Appeals to friendship and loyalty.
  - Employment opportunities.
  - Preferential treatment.
  - Facilitation payments.

###### **Inducements Prohibited by Laws and Regulations**

- R340.5** In many jurisdictions, there are laws and regulations related to bribery and corruption that prohibit the offering or accepting of inducements in certain circumstances. The professional accountant shall obtain an understanding of relevant laws and regulations and comply with them when the accountant encounters such circumstances.

## Inducements Not Prohibited by Laws and Regulations

340.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

### *Inducements with Intent to Improperly Influence Behavior*

**R340.7** A professional accountant shall not offer, or encourage others to offer, any inducement that is made, or which the accountant believes a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the recipient's behavior.

**R340.8** A professional accountant shall not accept, or encourage others to accept, any inducement that the accountant has reason to believe is made, or believes a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the recipient's behavior.

340.9 A1 Relevant factors to consider in determining whether there is actual or perceived intent to improperly influence behavior include:

- The nature, frequency and value of the inducement.
- Whether there is a special occasion that has given rise to the inducement, for example, whether it is customary practice in relation to a religious holiday or wedding.
- Whether the inducement is an ancillary part of a professional service, for example, accepting lunch in connection with a business meeting.
- Whether the offer of the inducement is limited to the individual recipient or available to a broader group. The broader group might be internal or external to the firm, such as other suppliers to the client.
- The roles and positions of the individuals at the firm or the client offering or being offered the inducement.
- Whether the professional accountant knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the client.

### *Inducements with No Intent to Improperly Influence Behavior*

340.10 A1 Unless an inducement is trivial and inconsequential, the requirements and application material set out in the conceptual framework apply when a professional accountant believes there is no actual or perceived intent to improperly influence behavior.

340.11 A1 The following are examples where threats might be created from offering or accepting an inducement:

(a) Self-interest threats

- A professional accountant is offered hospitality from a client whilst preparing the client's tax return.

(b) Familiarity threats

- A professional accountant regularly takes a client to sporting events.

(c) Intimidation threats

- A professional accountant accepts hospitality from a client that would be perceived to be inappropriate were it to be publicly disclosed.

340.11 A2 The factors that are relevant in evaluating the level of any threats created by offering or accepting an inducement are the same factors set out in paragraph 340.9 A1 for determining intent.

340.11 A3 Examples of actions that might be safeguards to address threats created by offering or accepting an inducement include:

- Registering the inducement, whether offered or accepted, in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance for the purposes of transparency.
- Having an appropriate individual, who is not otherwise involved in providing the professional service, review any work performed or decisions made by the professional accountant with respect to the client from which the accountant accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement.

340.11 A4 An example of an action that might eliminate threats created by offering or accepting an inducement is transferring responsibility for the provision of any professional services for the client to another individual who the professional accountant has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.

**Immediate or Close Family Members**

**R340.12** A professional accountant shall remain alert to potential threats to the accountant's compliance with the fundamental principles arising from an inducement being offered:

- (a) By an immediate or close family member of the accountant to a client of the accountant.
- (b) To an immediate or close family member of the accountant by a client of the accountant.

**R340.13** Where the professional accountant has reason to believe there is intent to improperly influence the behavior of the accountant or the accountant's client, or believes a reasonable and informed third party would be likely to conclude such intent exists, the accountant shall advise the immediate or close family member not to offer or accept the inducement.

340.13 A1 The factors set out in paragraph 340.9 A1 are relevant in determining whether there is actual or perceived intent to improperly influence the behavior of the professional accountant or the client. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The professional accountant and the immediate or close family member;
- (b) The immediate or close family member and the client; and
- (c) The accountant and the client.

For example, the offer of employment, outside of the normal recruitment process, to a spouse of the professional accountant by a client for whom the accountant is providing a business valuation for a prospective sale might indicate such intent.

340.14 A1 Unless the inducement is trivial and inconsequential, the application material in paragraphs 340.10 A1 to 340.11 A4 is relevant for the purposes of identifying, evaluating and addressing threats where:

- (a) The immediate or close family member offers or accepts the inducement contrary to the advice of the professional accountant in accordance with R340.13; or
- (b) The accountant does not have reason to believe an actual or perceived intent to improperly influence the behavior of the accountant or the client exists.

340.14 A2 Factors that are relevant in evaluating the level of threats in these circumstances include the nature or closeness of the relationships referred to in paragraph 340.13 A1.

**Other Considerations**

340.15 A1 If a firm, network firm or an audit team member is being offered gifts or hospitality from an audit client, then the additional requirement set out in Section 420 applies.

340.15 A2 If a firm or an assurance team member is being offered gifts or hospitality from an assurance client, then the additional requirement set out in Section 906 applies.

340.15 A3 If a professional accountant encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by a client or individuals working for the client, Section 360 is also relevant.



## **PART 4A – INDEPENDENCE FOR AUDITS AND REVIEWS**

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### **Section 420**

#### **Gifts and Hospitality**

##### **Introduction**

- 420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 420.2 Accepting gifts and hospitality from an audit client might create self-interest, familiarity or intimidation threats to compliance with the fundamental principles and threats to independence.
- 420.3 Section 420 sets out a requirement relevant to applying the conceptual framework to accepting gifts and hospitality from an audit client.

##### **Requirement**

- R420.4** In addition to complying with the requirements relating to the offering or accepting of inducements set out in Section 340, a firm, network firm or audit team member shall not accept gifts and hospitality from an audit client, unless the value is trivial and inconsequential.

## **Part 4B – INDEPENDENCE FOR OTHER ASSURANCE ENGAGEMENTS**

...

### **Section 906**

#### **Gifts and Hospitality**

##### **Introduction**

- 906.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 906.2 Accepting gifts and hospitality from an assurance client might create self-interest, familiarity or intimidation threats to compliance with the fundamental principles and threats to independence.
- 906.3 Section 906 sets out a requirement relevant to applying the conceptual framework to accepting gifts and hospitality from an assurance client.

##### **Requirement**

- R906.4** In addition to complying with the requirements relating to the offering or accepting of inducements set out in Section 340, a firm or an assurance team member shall not accept gifts and hospitality from an assurance client, unless the value is trivial and inconsequential.

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## NZAuASB Board Meeting Summary Paper

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<b>AGENDA ITEM NO.</b>	11.1
<b>Meeting date:</b>	25 October 2017
<b>Subject:</b>	Guidance for prescribers of assurance requirements on using the NZAuASB assurance standards
<b>Date:</b>	11 October 2017
<b>Prepared by:</b>	Peyman Momenan

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<input checked="" type="checkbox"/> <b>Action Required</b>	<input type="checkbox"/> <b>For Information Purposes Only</b>
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### **Agenda Item Objectives**

To consider and provide feedback on the draft guidance for prescribers of assurance requirements

### **Background**

1. The Board approved in February 2016 a project to develop guidance on the use of relevant standards and assurance products.
2. As the first step of this project, we developed general guidance on the use of the NZAuASB's assurance standards, which the Board approved in its July 2016 meeting. The general guidance is a useful part of the final guidance product and not intended for any specific user group, but to serve as the foundation of guidance for specific user groups.
3. The Board agreed in February 2017 that the next user specific group to develop guidance for in relation to the use of relevant standards and assurance products, are prescribers of assurance engagements (e.g. policy makers and regulatory supervisors such as the FMA).
4. In its July 2017 meeting, the Board considered the first draft of the guide. The Board requested us to shorten the guide and to consider re-ordering the content.

### **Update on the Project**

5. Agenda item 11.2 includes the second draft of guidance for prescribers of assurance requirements, modified in accordance with the Board's feedback on the first draft.

### **Matters to consider**

6. At this stage, we seek the Board's initial feedback on the content (and the order of the content) of the second draft of the guidance (i.e. have all key matters been included, is it technically correct, is it not too difficult to follow, are there any matters that should be excluded, etc).
7. In addition to the above, we seek the Board's feedback on the following matters:
  - a. The first key consideration for prescribers of assurance engagement as per the existing version is using correct terminology to describe an engagement. This is consistent with the feedback provided by the Board in the July meeting. However, we seek the Board's feedback as whether the first consideration should be "considering the practicability of the engagement" instead.
  - b. According to the received feedback from the Board and to make the guidance shorter and easier to follow, this guidance starts with the assumption that the prescribers have already considered all other alternatives to assurance engagements in accordance with the NZAuASB standards (e.g. engagements in accordance with ISO standards, non-assurance type engagements etc). The previous version contained a section covering this consideration. We now seek the Board's feedback whether the current approach (i.e. excluding alternatives to engagements in accordance with the NZAuASB standards) is appropriate.

### **Material Presented**

Agenda item 11.1	Board meeting summary paper guide of prescribers of assurance engagements
Agenda item 11.2	Guidance for prescribers of assurance engagements

## Introduction

Regulators, government departments and others impose requirements for certain entities to arrange for a professional assignment over information about a particular matter of interest in order to increase the confidence in the information. This guidance is for when such assignments are required or expected to be undertaken in accordance with standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB). Such assignments are referred to as assurance engagements.

In requiring an assurance engagement, it is important to ensure that:

- The needs of the expected users of the engagement (the users) are appropriately addressed,
- The entities required to arrange the assurance engagement (the engaging party) have a clear understanding of the engagement and who they should approach to undertake it, and
- The assurance practitioners undertaking the engagement find its description consistent with the applicable NZAuASB assurance standards including ethical and professional requirements (if not, they will be unable to undertake the engagement).

Prescribers of assurance engagements need to describe the engagement clearly and accurately to achieve the above objectives. This guide provides an overview of some helpful considerations in that regard.

This guidance is helpful when:

- Proposing new legislation and/or revising and clarifying existing legislation requiring an assurance engagement.
- Drafting documentation describing assurance engagements expected to be undertaken.

## Consideration in prescribing an assurance engagement

Prescribing an assurance engagement involves describing the engagement and specifying its scope. To ensure that users’/prescribers’ expectations are met, and to avoid the possibility of misleading those involved in undertaking the engagement, the description of the engagement needs to be accurate and clear. Explicitly requiring the engagement to be conducted in accordance with the NZAuASB standards is a good start.

It is also very important for the independent assurance practitioner to understand the scope of work to be undertaken and the form of report to be provided. In particular, there is a need to be clear about what is within in the scope of the work to ensure intended users’ expectations of the engagement are appropriate. The scope determines the nature and extent of testing that will be required.

The following diagram provides a list of certain key considerations that will assist the prescriber of the assurance engagement in appropriately describing the engagement.

### Key considerations in prescribing assurance engagements

- 1 Use correct terminology to describe the engagement
- 2 Specify who is expected to undertake the engagement
- 3 Specify the required level of confidence
- 4 Consider the practicability of the engagement



# 1

## Use correct terminology to describe the engagement

Some terms have specific meanings under the NZAuASB assurance standards. Unless these terms are used carefully, the information could be misleading to users (Appendix 1 on page 9 provides examples of misleading communications). The first step in ensuring using correct terminology is to identify the type of information subject to the assurance engagement.

Information that is typically included in an entity's financial statements is called "historical financial information". Assurance engagements over this type of information are the best known and most commonly used assurance services: **audit** or **review** engagements.

An **audit** is a **reasonable assurance** engagement (see page 6) over historical financial information where an independent assurance practitioner (called an **independent auditor**) provides their **opinion** as to whether the financial statements are prepared in accordance with the applicable financial reporting framework.

A **review** is a **limited assurance** engagement (see page 6) over historical financial information that is less thorough and detailed than an audit. The **reviewer** provides a **conclusion** as to whether anything has come to their attention to indicate that the financial statements have not been prepared in all material respects, in accordance with the applicable financial reporting framework.

Assurance engagements over all other types of subject matters (other than "historical financial information") is dealt with under "**Other Assurance Engagement**" standards. These standards are a series of assurance standards that can be applied to a wide range of subject matters. ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, is the umbrella standard for other assurance engagements, and is to be used with topic specific standards where

relevant. The NZAuASB has issued the following subject matter specific other assurance standards:

- SAE 3100 (Revised), *Compliance Engagements*
- SAE 3150 (Revised), *Assurance Engagements on Controls*
- ISAE 3402, *Assurance Reports on Controls at a Service Organisation*
- ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*
- ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

All **other assurance engagements** can be undertaken as **reasonable** or **limited** assurance engagements (see page 6 for more information). An important consideration when requiring **other assurance engagements** is their practicability (see page 8 for more information).

The following table provides a summary of appropriate key terms in describing an assurance engagement.

<b>Subject Matter</b>	<b>Level of assurance</b>	<b>Title of the engagement</b>	<b>Title of the assurance practitioner</b>
<b>Information included in financial statements</b>	<b>Reasonable</b>	<b>Audit</b>	The independent auditor
	<b>Limited</b>	<b>Review</b>	The independent assurance practitioner
<b>Other information</b>	<b>Reasonable</b>	<b>Reasonable Assurance Engagement</b>	The independent assurance practitioner
	<b>Limited</b>	<b>Limited Assurance Engagement</b>	The independent assurance practitioner

## 2

### Specify who is expected to undertake the engagement

In New Zealand, all statutory required assurance engagements to be performed in accordance with the NZAuASB's standards are required to be performed by assurance practitioners with statutory recognised credentials. Appendix 2 provides an overview of New Zealand statutory recognised assurance practitioners at present. Statutory recognised assurance practitioners are required to comply with all the relevant standards issued by the NZAuASB, including ethical and quality controls standards.

Members of professional accounting bodies (such as Chartered Accountants Australia and New Zealand (CAANZ) and CPA Australia) are also required to comply with all the relevant standards issued by the NZAuASB when undertaking an assurance engagement, statutory required or otherwise. However, membership of a professional accounting body does not automatically make the member eligible for undertaking an assurance engagement. In addition to such membership, assurance practitioners need to have a certificate of public practice. They also need to be subject to initial and continuing professional development, as well as ongoing monitoring and disciplinary regimes to ensure the quality of their assurance services and their compliance with professional and ethical standards.

NZAuASB standards for assurance engagements **other than** audit or a review of historical financial information may be used by individuals who are NOT accredited members of professional accounting bodies. However, they can only assert compliance with those standards if they comply with the professional ethical and quality control standards issued by the NZAuASB or similar standards that are at least as demanding as those issued by the NZAuASB. In case of the latter, an evaluation of the alternative ethical and quality control standards against the NZAuASB standards by an appropriately qualified evaluator is recommended.

### 3

#### Specify the required level of confidence

No assurance engagement can obtain absolute assurance about the engagement subject matter. Instead, assurance practitioners can be engaged to obtain either:

- **Reasonable** assurance (a high level of assurance, which is less than absolute assurance) from obtaining sufficient and appropriate evidence, which then allows the assurance practitioner to express a positive opinion over the subject matter information (SMI); or
- **Limited** assurance (a meaningful level of assurance, which is more than inconsequential but is less than reasonable assurance) from obtaining sufficient and appropriate evidence, which then allows for the assurance practitioner to express a negative conclusion over the subject matter information (SMI).

#### Limited assurance

There is an **appropriately low risk (but higher than for reasonable assurance)** that the assurance practitioner expresses an incorrect conclusion.

#### Reasonable assurance

There is a reasonably low risk that the assurance practitioner expresses an incorrect conclusion about the SMI.

**This is the highest level of assurance that can be obtained from an assurance engagement**

#### Absolute Assurance

There is zero risk that the assurance practitioner expresses an incorrect conclusion about the SMI.

**No assurance engagement can obtain absolute assurance that the expressed conclusion is correct.**

Because the level of assurance obtained in a **limited** assurance engagement is lower than in a **reasonable** assurance engagement, the procedures the practitioner performs in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. This means that limited assurance engagements may be less costly than reasonable assurance engagements.

The following table compares **reasonable** and **limited** assurance:

<b>Reasonable Assurance Engagement</b>	<b>Limited Assurance Engagement</b>
A <b>reasonable</b> assurance engagement is designed to provide a <b>reasonable</b> level of assurance	A <b>limited</b> assurance engagement is designed to provide only <b>limited</b> assurance
The <b>reasonable</b> assurance report opinion: Expressed in <b>positive</b> form “...In our opinion, the subject matter information <b>present fairly</b> ...”	The <b>limited</b> assurance engagement conclusion: Expressed in the <b>negative</b> form “...based on the work performed, as described in the report, <b>nothing has come to our attention</b> ...”
Provides a high <b>but not absolute</b> level of assurance	Provides a lower level of assurance than from a reasonable assurance engagement
Assurance that the subject matter information is not materially misrepresented	Increased risk that assurance practitioner may not become aware of significant misrepresentation in the subject matter information
Drives a <b>higher level</b> of “Work Effort”	Drives a <b>lower level</b> of “Work Effort”

It is important that the prescribers of assurance engagement clearly specify their expected level of confidence from the assurance engagement (e.g. a reasonable or limited assurance engagement).

## 4 Consider the practicability of the engagement

Assurance engagements can only be undertaken over subject matters that:

- are identifiable and measurable against suitable criteria (i.e. the benchmarks used for evaluation of the subject matter), and
- can be subjected to procedures to gather evidence sufficient to support the required assurance conclusion.

Existence of suitable criteria is a fundamental element of an assurance engagement. Suitable criteria<sup>1</sup> are required for reasonably consistent measurement or evaluation of the engagement's subject matter. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. Therefore, it is important for the entity requiring an assurance engagement to consider (and where appropriate specify) the suitable criteria for the assurance engagement it is prescribing.

Another important matter to consider is the availability of relevant evidence. Evidence is information used by the assurance practitioner in arriving at the assurance practitioner's conclusion. The prescribing entity will need to consider whether the assurance practitioner can reasonably be expected to be able to:

- obtain the evidence needed to support the assurance practitioner's conclusion, and
- have access to records, documentation and other information the assurance practitioner may require as evidence to complete the engagement.

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<sup>1</sup> For more information on suitable criteria please refer to ISAE (NZ) 3000 (Revised), paragraphs A45 to A50.

## Appendix 1: Examples of inaccurate description of assurance engagements

Inaccurate description	How the description can improve
<p>The assurance practitioners are required to undertake a review of financial statements and to provide an audit opinion about the report.</p>	<p>The engagement is poorly described. Review and audit are two different types of assurance engagements (see page 3). The assurance practitioner should either be asked to review the financial statements to provide a review report or to audit the financial statements and to provide an audit report.</p>
<p>The assurance practitioners are required to perform an Agreed Upon Procedures(AUP) engagement over certain information and to provide an opinion if the information is fairly presented.</p>	<p>An AUP engagement includes presentation of facts as agreed. It is not an assurance engagement and should not be described in a manner that implies so. The prescribers of the engagement need to carefully consider their needs and circumstances to determine if they require an AUP engagement or an assurance engagement.</p>
<p>An auditor is required to verify completeness of certain information not included in the financial statements as part of their audit.</p>	<p>There are two issues:</p> <ol style="list-style-type: none"> <li>1) the required matter is outside the scope of an audit engagement. It should clearly be required as a separate engagement.</li> <li>2) No assurance engagement can provide absolute assurance. It is important the required assurance engagement is phrased appropriately to avoid implying so. For example, it is always helpful to state that the assurance practitioner is expected to provide an opinion (not to “verify”) as to whether certain type of information is complete <b>in all material respects</b>.</li> </ol>

## Appendix 2: Assurance practitioners with statutory recognised credentials

Recognition Title	Recognising Entity	Description
<b>Licensed Auditor</b>	The Financial Market Authority (FMA)	This is the highest level of a statutory recognition an assurance practitioner auditing or reviewing the financial statements may obtain in New Zealand. A Licensed auditor is allowed to audit or review (in accordance with the NZAuASB assurance standards) the financial statements of FMC Reporting entities.
<b>Qualified Auditor</b>	CAANZ	CAANZ members who are recognised as “qualified auditors” are allowed to audit or review (in accordance with the NZAuASB assurance standards) the financial statements of Registered Charities with statutory required audits or reviews.
<b>A chartered Accountant with a Certificate of Public Practice (CPP)</b>	CAANZ, and CPA Australia	This is the starting level of professional recognition for a chartered accountant who provides assurance services over the financial statements. A CPP holder is allowed to conduct audit and review (in accordance with the NZAuASB assurance standards) on financial statements for all entities, except for those that are restricted to Licensed or Qualified Auditors.
<b>The Auditor-General</b>	The Public Audit Act 2001	The Auditor-General is responsible for auditing all public entities.





NZ AUDITING  
AND ASSURANCE  
STANDARDS BOARD

**DATE:** 12 October 2017

**TO:** Members of the New Zealand Auditing and Assurance Standards Board

**FROM:** Peyman Momenan

**SUBJECT:** **International Update**

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### **Introduction**

1. This Update summarises the significant news of the IAASB, other national auditing standards-setting bodies and professional organisations for the Board's information, for September and October 2017.

### **International Federation of Accountants (IFAC)**

1. IFAC and published [Making Regulation Work, Principles and Models for the Accountancy Profession](#) in August 2017. This publication is designed to support professional accountancy organization in their efforts to adapt to recent regulatory evolution, and actively influence stakeholders and influencers.

### **International Auditing and Assurance Standards Board (IAASB)**

1. In October 2017, the IAASB published [ISA 600 Project Update](#). This publication was prepared by the IAASB Group Audits Task Force to update the issues under consideration in the revision of ISA 600, Special Considerations–Audits of Group Financial Statements, and other projects that address other international standards, including ISA 220, Quality Control for an Audit of Financial Statements, and ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements. It also explains the linkages between these projects as they relate to group audit issues.

The update concludes by stating that:

The IAASB is committed to revising ISA 600; however, the IAASB has a number of priority projects on its current agenda and is managing finite staff resources and Board capacity. As explained above, a number of revisions to ISA 600 are contingent upon the foundational revisions being made to other standards. The GATF's efforts in the near term will therefore be primarily focused on further liaison with the Task Forces responsible for revisions to ISQC 1, ISA 220, and ISA 315 (Revised), i.e., providing necessary input to assist in how issues relevant to group audits are addressed in the revisions to those standards. As these projects progress, and as staff and other resources become available, the GATF will commence with revising ISA 600 to reflect revisions in the other standards, as well as on working on the other issues that need to be addressed in the revision of ISA 600.

2. IAASB Ongoing projects (refer to appendix 1)

## **International Ethics Standards Board for Accountants (IESBA)**

1. The IFAC Small and Medium Practices (SMP) Committee recently responded to three IESBA Exposure Drafts (EDs) on proposed changes to the Code of Ethics for Professional Accountants and application materials on the extension of Part C of the extant Code to professional accountants in public practice (PAPPs), further revisions on safeguards, and improving the structure of the Code. [This article](#), prepared by IFAC staff, highlights key concerns raised by the SMP Committee in relation to the EDs.
2. In 2015, IAASB, IESBA, and the International Accounting Education Standards Board (IAESB) convened a small, cross-representational working group—the Professional Skepticism Working Group—to formulate views on whether and how each of the three boards’ sets of international standards could further contribute to strengthening the understanding and application of the concept of professional skepticism as it applies to an audit.

The Working Group [published its observations](#) in August 2017. This publication outlines observations about the current environment and sets out actions the global standard-setting boards will take, as well as the role that other stakeholders can play, in enhancing professional skepticism. The WG’s key observations are as follows:

- **Increased attention to business acumen is central to the exercise of professional skepticism:** In today’s complex and rapidly changing business environment, strong business acumen is essential. For example, a sufficient knowledge of the client’s business model and strong professional competencies, in addition to a strong understanding of relevant standards, laws, and regulations, enable robust professional skepticism. Education and continuing, effective training remain vital.
- **Environmental factors can influence the ability to exercise professional skepticism:** Professional skepticism can be impeded by factors from tight financial reporting deadlines and resource constraints, to a firm’s tone at the top and incentive systems, to local culture and groupthink. Heightening awareness of these and other factors is the first step to mitigate their impact.
- **Awareness of personal traits and biases is essential:** Personal traits play a role in the exercise of professional skepticism. These include, for example, confidence; an inquisitive nature; an individual’s response to stress, time pressures, or conflict; knowledge; practical experience; and cultural background. Equally, a range of biases such as anchoring bias, confirmation bias and groupthink can act as impediments to the proper exercise of professional skepticism. In consideration of these factors, standards might be improved by including more guidance about how an awareness and understanding of personal traits and biases can enhance the exercise of professional skepticism.
- **Building in professional skepticism from the outset is key:** Instilling professional skepticism starts at the beginning of one’s career. For auditors, some have said it needs to be “part of their DNA.” Education and training can raise awareness and develop the needed attitude. At both the firm and engagement level, it is critical to reinforce and monitor the application of professional skepticism, including through setting the right tone at the top.
- **There is more that the three standard-setting boards can do, both in the immediate term and the longer term:** The Working Group provided [recommendations](#) to all three boards outlining actions that they may take individually as well as collectively. These included immediate actions, which are being acted on with priority attention, as well as considerations requiring further study.
- **Beyond audit, aspects of the concepts underlying professional skepticism may be relevant to all professional accountants:** There are questions about whether and how aspects of the concepts underlying professional skepticism should apply more broadly to all professional accountants, and not just auditors. There is a view that an understanding of the concepts underlying professional skepticism can benefit all professional accountants. Also, it is observed that compliance with the fundamental principles in the Code can support the exercise of professional skepticism. The boards, in particular the IESBA and IAESB,

recognize the need for further study about whether and, if so, how aspects of the concepts underlying professional skepticism should be pertinent to all professional accountants.

- **Standard setting alone will not be enough:** All stakeholders with an interest in professional skepticism have a role to play to help cultivate a skeptical mindset.

### **Accountancy Europe (AE) (former FEE)**

1. AE published [How to respond to assurance needs on non-financial information](#) discussion paper in October 2017. Stakeholders use Non-Financial Information (NFI) as an input to their decision making, but they want to know if this information can be trusted. External assurance can strengthen their confidence in the reliability of NFI. This discussion paper sets out the context of NFI reporting and assurance, regarding market demand, regulation, and the role of the accountancy profession. Then it provides the 6 key steps for professional accountants to follow while conducting an assurance engagement on NFI. Each of the 6 steps contains 'Items for discussion'.
2. AE published [Keeping the Audit Profession Attractive](#) in July 2017. Audit is a people business. While increased regulation and technology change the demands on auditors, audit quality remains at the forefront. It is key that the audit profession can stay appealing to high quality people, including professionals with a different background.

AE gathered views on the attractiveness of the audit profession, as well as ideas on keeping it attractive by interviewing 21 key stakeholders, such as (young) auditors, regulators, investors, academics, and policy makers. Their thoughts are covered in this paper.

### **Public Interest Oversight Board of IFAC (PIOB)**

3. There have been no significant developments related to audit and assurance to report in the period.

### **International Integrated Reporting Council (IIRC)**

1. The practice of companies changing their annual financial reports to 'integrate' wider concepts of sustainable development and financial stability, is taking hold in New Zealand. That is the message from the Chief Executive of the global coalition for integrated reporting, on a two-day visit to Wellington and Auckland, in October 2017. Eight of the N100 companies have now adopted the practice, with a further 40 organisations in public and private sector also producing the reports, CEO Richard Howitt of the International Integrated Reporting Council (IIRC) was told.
2. Businesses are being called upon to contribute to the Sustainable Development Goals (SDGs) which were adopted in 2015 as the sustainable development agenda for the world to 2030. They are also being warned that the long-term success and survival of some industries and businesses depends on the achievement of one or more of the SDGs, particularly climate action. Whilst overall responsibility lies with national governments, the SDGs cannot be achieved without a concerted effort by business and other organizations. The IIRC and the Institute of Chartered Accountants of Scotland have published [a new report](#) describing how businesses can achieve SDGs. The framework for contributing to the SDGs through the <IR> value creation process set out in this report involves a five-step process:
  - Understand sustainable development issues relevant to the organization's external environment
  - Identify material sustainable development issues that influence value creation
  - Develop strategy to contribute to the SDGs through the business model
  - Develop integrated thinking, connectivity and governance
  - Prepare the integrated report.

### **Global Reporting Initiative (GRI)**

1. There have been no significant developments related to audit and assurance to report in the period.

### **International Forum of Independent Audit Regulators (IFIAR)**

1. IFIAR published its [Comments on the IAASB Request for Input on ISA 540 \(Revised\)](#). IFIAR generally believe that the proposals in this ED are a step in the right direction and can help drive better audit quality by requiring auditors to perform risk assessment procedures specifically addressing factors relevant to accounting estimates. However, they made few important comments as how they would like the ED to be improved.

### **International Organization of Supreme Audit Institutions (INTOSAI)**

1. There have been no significant developments related to audit and assurance to report in the period.

### **International Organization of Securities Commissions (IOSCO)**

1. There have been no significant developments related to audit and assurance to report in the period.

## Australia

### **The Australian Auditing and Assurance Standards Board (AUASB)**

1. Highlights from the September 2017 AUASB meeting include:
  - The AUASB considered matters included in the Comments Received and Proposed Disposition Paper on the ASAE 3500 exposure draft. Subsequent to further minor amendments requested by AUASB members the revised standard ASAE 3500 *Performance Engagements* was approved for issue, subject to quality assurance and AUASB Chair approval.
  - AASB Chair Kris Peach provided the AUASB with an update on the international accounting standard setting environment, including stakeholder management and how the AASB influences the global accounting standard setting process. Ms Peach also provided an update in relation to the AASB's Charities Reporting Framework project.
  - FRC Chair Bill Edge provided the AUASB with an update on FRC priorities including simplicity in reporting and audit quality.
  - Following the finalisation of the updated [Strategy and Corporate Plan for 2017-21](#), the AUASB discussed how to proceed on a number of strategic projects outlined in the Draft AUASB 2017-18 Technical Work Program.
  - The AUASB discussed the proposed agenda for the upcoming AUASB-UNSW Roundtable (Friday 13 October 2017, Sydney). The day will focus on a number of the strategic projects in the Draft AUASB 2017-18 Technical Work Program including Auditor Reporting, EER and engagement with regulators.
  - The AUASB discussed potential approaches in relation to the best way of engaging on international auditing and assurance standard developments given there is no longer an AUASB representative on the IAASB. The AUASB also provided high-level feedback on a number of the agenda items to be tabled at the IAASB meeting (18-22 September, New York).

### **The Australian Securities & Investments Commission (ASIC)**

1. There have been no significant developments related to audit and assurance to report in the period.

## United Kingdom

### **Financial Reporting Council (FRC)**

2. There have been no significant developments related to audit and assurance to report in the period.

### **Institute of Chartered Accountants in England and Wales**

1. ICAEW published [Materiality in the Audit of the Financial Statements](#). This publication is a practical guide for auditors who are applying the materiality requirements in International Standards on Auditing (ISAs) on audits.

The guide takes a look at the ISA requirements, highlighting key challenges and common pitfalls and providing practical illustrations intended to be relevant to all jurisdictions where ISAs are applied. It does not, however, address any specific local requirements that jurisdictions might have in place in this area and where this is the case, auditors should read this guide in conjunction with these local requirements.

The guide is intended to be of particular help to smaller firms, including sole practitioners and those firms with a few audit engagement partners, but is relevant to firms of all sizes.

### **The Charity Commission**

1. The Charity Commission published [Accounts monitoring review: concerns highlighted by auditors in their audit reports](#) in September 2017. In 2016, 97 charities filed accounts with a modified audit opinion, meaning that their accounts are, or may be, materially misstated. Approximately half of these charities had gaps in the evidence that supported their accounts, mostly because of deficiencies in their accounting records. The other charities had not followed charity accounting requirements, either by valuing their properties or investments incorrectly or by not including pension liabilities in their accounts.

## United States of America

### **Public Company Accounting Oversight Board (PCAOB)**

1. PCAOB Published [Staff Audit Practice Alert on Auditing the New Accounting Standard for Revenue](#). The publication is to assist auditors in applying PCAOB standards when auditing companies' implementation of the new revenue accounting standard from the Financial Accounting Standards Board.

### **American Institute of Certified Public Accountants (AICPA)**

1. There have been no significant developments related to audit and assurance to report in the period.

### **Center for Audit Quality (CAQ) - (affiliated with AICPA)**

1. The Anti-Fraud Collaboration continues to promote diligence in financial fraud deterrence and detection with the latest installment of its series of case studies. The new case study features fictional company LDC Cloud Systems, a rapidly growing global technology company whose board must contend with a bribery allegation and accounting abnormalities.

With a plot centered on a bribery allegation and questionable accounting oversight within the company, this hypothetical scenario is designed to provide the reader a better appreciation of how fraud situations can unfold and be addressed, including the importance of strong board oversight. The [LDC Cloud Systems case study](#) explores actions of management and the board in-depth, providing a timeline of decisions after they uncover potential problems within the company. The case study also illustrates how complex accounting practices common in today's fast-changing business environment can make a company susceptible to fraud.

## Canada

### **Canadian Auditing and Assurance Standards Board (CAASB)**

1. Highlights from the September 2017 CAASB meeting include:
  - The AASB provided input to the CPA Canada nominee on the International Auditing and Assurance Standards Board (IAASB) on issues related to the IAASB's project to revise ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures. Key issues discussed included:
    - whether the threshold of low inherent risk should be retained;

- how the auditor should take the risk factors (complexity, judgment and estimation uncertainty) into account when performing the risk assessment; and
- how best to structure the requirements related to responding to risks of material misstatement.
- The Board discussed issues related to the CASs on auditor reporting, including:
  - the effective date and scope for key audit matters reporting;
  - possible implications of disclosing the engagement partner's name in the auditor's report; and
  - other options to pursue if the proposal to create a combined U.S. and Canadian auditor's report is not accepted by the U.S. Securities Exchange Commission.
  - The Board will continue to discuss these and other issues at a future meeting.
- The Board provided input to the CPA Canada nominee on the IAASB on issues related to the IAASB's project to revise ISA 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors). The Board supported the IAASB Group Audits Task Force's (GATF) proposed project update, with a recommendation to add a high-level project timeline. The Board encourages the GATF to consider issuing interim guidance on key issues while the standard is being revised. If resources allow, the GATF should also continue to address group audit specific issues as they interact with other working groups. This will help to maintain alignment of the project timelines.
- The Board provided input to the CPA Canada nominee on the IAASB on issues related to the IAASB's project to amend ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, including:
  - new and revised definitions for terms such as "internal controls", "controls" and "significant risk";
  - proposed changes to the definitions of the five components of internal controls; and
  - identification and assessment of the risk of material misstatement, in particular the separation of the requirements relating to the assessment of inherent risk and the assessment of control risk.
- The Board provided input to the CPA Canada nominee on the IAASB on issues related to the IAASB's project to revise ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements. Key issues discussed included:
  - whether to retain the requirement to have an engagement quality control review for all audits of financial statements of listed entities, or whether such reviews should be required only for audits of general purpose financial statements of listed entities;
  - whether the proposed requirement for the firm to establish policies and procedures to select other engagements to have an engagement quality control review will result in the appropriate selection of high-risk engagements; and
  - the eligibility and appointment of the engagement quality control reviewer, including specific considerations for small and medium-sized practitioners.

### **CPA Canada**

- CPA Canada published [Audit data analytics alert: Survey on ADAs in Canada – Results and implications](#). The summary of the research is presented in the following page.



## CPA Canada Audit Data Analytics (ADAs) Survey Results Summary

### Main topics

- Nature and extent of use of ADAs and factors driving or inhibiting use

### Respondents

- 394 auditors responded from both large and small/medium-sized firms and offices in various locations across Canada who audit organizations of varying size and industry.
- 49% of respondents were audit partners.

### Highlights\*

- 46% of respondents have used some form of ADAs (63% from large firms, 39% from small/medium-sized firms).
- 20% of respondents overall have used advanced ADAs (see page 6).
- 92% of respondents have used some form of analytical tool (mostly Excel-based) including for purposes other than ADAs (see page 7).

- Use of ADAs is not significantly related to respondent demographics (e.g., age, gender) (see page 8).
- Percentage of users of ADAs in an office increases as office size increases (see page 7).
- ADAs are more often used in auditing assertions that require relatively less judgment and decision-making expertise (see pages 8 and 9).
- Whether ADAs are used to provide primary or corroborative sources of evidence varies with firm size, size of client and whether the assertions being audited relate to transaction streams or balances (see page 10).
- Client expectations, a desire to achieve competitive advantage and ADA training opportunities drive use of ADAs (see pages 11 and 12).
- The most frequently identified impediments to use of ADAs are inadequate technical and statistical knowledge, inadequate training opportunities, as well as cost (see pages 12 and 13).
- There is a relatively strong association between firm size and the regulatory environment as an impediment to further integration of ADAs into the audit of financial statements; the same association is present as the audit engagement size increases (see page 12).

\* Page references in brackets above refer to the section of the Alert where the highlight is explored.

### Possible Implications

- There is a need for further research to obtain information on reasons why firms of different sizes are taking different approaches.
- Key decisions need to be made by firms as to how best to provide training in the use of ADAs (e.g., focus on training a few experts or use training to provide all auditors with a functional (i.e., non-expert) knowledge of various ADA tools).

Appendix A: IAASB Project and their latest status.

Project	Overview of the project and its current status
<p><b>Quality Control</b> <b>(Has update for the period)</b></p>	<p><b>Objective of the Project:</b> Initial activities in scoping the project will focus on whether there is a need to revisit specific aspects of the quality control standards to enhance clarity and consistency of their application. This may include restructuring ISQC 1, additional requirements or guidance within the standard or additional guidance in support of the standard. Specific aspects within ISQC 1 and ISA 220 being explored include, governance, engagement partner responsibilities, engagement quality control reviews, monitoring, remediation, alternative audit delivery models and specific issues pertaining to small- and medium-sized practices</p> <p><b>Background and current status:</b> The proposed changes to QC were included in the IAASB Audit Quality ITC. The ITC response period is closed now. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, and developed <a href="#">project proposals for quality control</a> that were presented at the September 2016 IAASB meeting.</p> <p>The IAASB considered the Quality Control Other Working Group's (QCOWG) <a href="#">proposals</a> in respect of:</p> <ul style="list-style-type: none"> <li>• Setting the objective of an engagement quality control (EQC) Revising the definition of an EQC review;</li> <li>• Determining the scope of the engagements subject to an EQC review; and</li> <li>• The execution of an EQC review.</li> </ul> <p>At its March 2017 meeting, the IAASB discussed matters to do with the <a href="#">eligibility</a> of the engagement quality control reviewer.</p> <p><b>QC-Firm Level</b></p> <p>In June 2017 the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC 1, a result of incorporating a quality management approach (QMA) into ISQC 1, that included a discussion of a working draft of ISQC 1 (Revised) and how the proposals are expected to change firm behaviors. The Board was supportive of the overall direction proposed by the QCTF and emphasized the importance of outreach with a variety of stakeholders to seek input on the practicality of the proposals. The Board also encouraged the QCTF to develop guidance and examples to accompany the revised standard in order to explain the implementation and application of the standard.</p> <p><b>Update for the period</b></p> <p>In its September 2017, the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC1 in relation to documentation of the system of quality management. The Board was supportive of the QCTF's proposals and suggested various refinements. Some of the key proposals were as follow:</p> <ul style="list-style-type: none"> <li>• the proposal to retain the requirement for an EQC review for all audits of financial statements of listed entities, i.e., not only for general purpose financial statements</li> </ul>



	<ul style="list-style-type: none"><li>• the proposals in relation to other engagements for which the firm determines that an EQC review is required (see <a href="#">here</a> for details)</li><li>• the objective of ISQC 2, including whether it is appropriate to locate the responsibilities of the EQC reviewer in ISQC 2, instead of ISA 220</li><li>• the IAASB supports the proposal to remove the reference to “team” from the definition of an EQC reviewer, and instead explain the use of a team in the application material supporting the appointment of the EQC reviewer</li><li>• the proposed requirements and application material in relation to the eligibility of the EQC reviewer.</li></ul> <p>The Board also discussed the QCTF’s recommendations in relation to EQC reviews that would be incorporated in ISQC 1 and the proposed new standard, ISQC2. The Board confirmed that the purpose of the EQC review is to evaluate the significant judgments made by the engagement team. In addition to various recommendations to further enhance and clarify the various requirements and application material, the Board encouraged the QCTF to improve the robustness of the requirement relating to the scope of the engagements subject to EQC review.</p> <p><b>(END OF UPDATE)</b></p> <p><b>QC-Special Considerations for Networks</b></p> <p>In relation to the quality control considerations relating to networks presented by the QCTF, the ISA 2202 TF and Group Audit Task Force (GATF) (the Task Forces), the Board:</p> <ul style="list-style-type: none"><li>• Supported the overall direction proposed by the Task Forces, including not revisiting the definition of networks used in the International Ethics Standards Board for Accountants’ (IESBA) Code of Ethics for Professional Accountants and the IAASB’s International standards, and not to further consider establishing requirements for networks in the IAASB’s International standards.</li><li>• Discussed various aspects of firms or engagement teams using information from networks as part of their quality management, including the appropriateness of terms used and associated challenges of using the information.</li></ul> <p>The Board encouraged the Task Forces to move forward in considering how changes could be made to the relevant standards to reflect the Board’s discussions.</p> <p><b>Quality Control – Engagement Level</b></p> <p>The IAASB discussed proposed changes to the requirements in ISA 220. Although some aspects of the changes were supported by the IAASB, such as strengthening the engagement partner’s leadership responsibilities for the engagement, and the consideration of all resources relevant to an engagement, the Board highlighted that many of the changes, as currently drafted, would likely be difficult to implement in practice. The Board also added that it would be difficult to demonstrate compliance with some of the new proposed requirements.</p>
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Appendix A: IAASB Project and their latest status.

	<p>The Board encouraged the ISA 220 Task Force to focus its efforts on changes that would enhance audit quality through refocusing the engagement partner's efforts, or involvement, on areas of high-risk in the audit (i.e., where the issues are complex and require more judgment) and to further consider the way that quality management could be built into some of the other elements of ISA 220 as appropriate.</p>
<p><b>Group Audits– ISA 600 (has update for the period)</b></p>	<p><b>Objective of the project:</b> Determining the nature of the IAASB's response to issues that have been identified, relating to Group Audits, from the ISA Implementation Monitoring project and outreach activities, inspection reports from audit regulators, discussion with NSS and responses to the IAASB's Work Plan consultation (i.e., whether standard-setting activities are appropriate to address the issues, and if so, whether specific enhancements within ISA 600 or a more holistic approach to the standard would be more appropriate).</p> <p><b>Background and current status:</b> The IAASB commenced work on one aspect of this project relating to the responsibilities of the engagement partner in circumstances where the engagement partner is not located where the majority of the audit work is performed in December 2014. A Staff Audit Practice Alert on this aspect was published in August 2015. Information gathering on the broader aspects of group audits commenced in March 2015.</p> <p>The issues identified and discussed at the IAASB meetings form part of a combined Invitation to Comment on Enhancing Audit Quality in the public interest which was issued in December 2015 and is open for comments till May 16, 2016. The ITC is now closed. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, <a href="#">presented the results</a> to IAASB at the September 2016 IAASB meeting.</p> <p>In its June 2017 meeting, the IAASB received an update on the activities of the GATF. The IAASB supported the proposal of the GATF to engage more directly with the QCTF, ISA 220 TF and ISA 315 (Revised)3 TF, to help ensure that the requirements in those standards provide appropriate connection points between those projects and ISA 600.4 The IAASB also supported the proposal of the GATF to publish a short project update and asked the GATF to consider topics that are related to standards not under revision, for example, materiality and audit evidence.</p> <p><b>Update for the period:</b></p> <p>Please refer item 1 under IAASB updates on page 1 of this Agenda paper.</p>
<p><b>Professional Scepticism (No update for this period, remains the same from last international update)</b></p>	<p><b>Objective of the project:</b> To make recommendations on how to more effectively respond to issues related to professional scepticism.</p> <p><b>Background and current status:</b> The IAASB commenced its initial information gathering on the topic of professional scepticism in June 2015. The issues identified and discussed at the IAASB meetings are part of the Invitation to Comment on Enhancing Audit Quality in the Public Interest which was issued in December 2015 and is open for comments till May 16, 2016.</p> <p>The working group is comprised of representatives from the IAASB, the International Ethics Standards Board for Accountants (IESBA), and the</p>

Appendix A: IAASB Project and their latest status.

	<p>International Accounting Education Standards Board (IAESB) to explore the topic of professional scepticism, enabling the three independent standard-setting Boards to consider what actions may be appropriate within their collective Standards and other potential outputs to enhance professional scepticism.</p> <p>Together with the Quality Control and ISA 600-Group Audits project, this project is part of the Audit Quality Enhancements Coordination Group (AQECG). The AQECG intends to coordinate the various inputs to the invitation to comment developed at the individual working group level, and take a holistic approach as to how the matters are presented in one invitation to comment. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, <a href="#">presented the results</a> to IAASB at the September 2016 IAASB meeting.</p> <p>Subsequent to the December 2016 IAASB meeting, the joint PSWG held a teleconference to discuss matters related to potential changes to the concept/definition of professional scepticism in the ISAs. The March meeting papers are available <a href="#">here</a>.</p> <p>In June 2017 meeting, the IAASB received an update on the activities of the Professional Skepticism Working Group (PSWG) and the Professional Skepticism IAASB Subgroup since the last Board meeting in March 2017. The Board supported the release of a communication to update stakeholders about the actions and current status of the PSWG’s work. The Board also discussed the concept of “levels” of professional skepticism and supported the recommendations of the Professional Skepticism IAASB Subgroup not to introduce the concept into the ISAs.</p>
<p><b>Accounting Estimates (ISA 540) and Special Audit Considerations Relevant to Financial Institutions (has update for the period)</b></p>	<p><b>Objective of the project:</b> The objective of the financial institutions project is to:</p> <ul style="list-style-type: none"> <li>A. Clarify and enhance the relationship between the banking supervisors and the bank’s external auditors;</li> <li>B. Consider and address issues of particular significance in audits of financial institutions; and</li> <li>C. Consider as to whether the issues relating to ISA 540 that have been highlighted as particularly relevant to audits of banks and other financial institutions are more broadly applicable to other entities</li> </ul> <p><b>Background and current status:</b> The ISA Implementation Monitoring project, specific requests from banking and insurance regulators and outreach activities by the ISA 540 Working Group, have identified issues with respect to auditing accounting estimates, in particular in relation to audits of financial institutions. Also, inspection finding reports from audit regulatory bodies highlighted consistent issues with respect to the audit of accounting estimates, including in relation to audits of financial institutions. There are areas where there have been calls for clearer or additional requirements or guidance to enable auditors to appropriately deal with increasingly complex accounting estimates and related disclosures, including obtaining sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements as a whole.</p>

Appendix A: IAASB Project and their latest status.

	<p>A draft exposure draft of revised ISA 540 has been developed and is to be deliberated by IAASB with an approved ED expected to be issued for comment in December 2016. <a href="#">The board reviewed the draft in its June 2016 meeting.</a></p> <p>IAASB expects to complete its deliberation of responses to the exposure draft and resulting proposed changes to ISA 540 (Revised) in 2017 with the revised standard expected to be issued in last quarter of 2017.</p> <p>The IAASB has released the ED ISA 540 for comment in May 2017.</p> <p><b>Update for the period:</b></p> <p>The Board received an overview of the comment letters received on proposed ISA 540 (Revised) in its September 2017 meeting. The Board discussed respondents' concerns about the complexity of the proposed ISA and potential difficulties in understanding and applying it in practice, and asked the ISA 540 Task Force to look at ways to restructure the proposed ISA to improve its clarity and readability. The Board also discussed the scalability of the ISA, how risk factors could be taken into account, and how best to structure the response to the assessed risks of material misstatement. The Board highlighted the importance of achieving the right balance between issuing a high-quality standard and the public interest in finalizing the ISA in a timely fashion. The IAASB is holding an additional meeting in October to progress proposed ISA 540 (Revised).</p>
<p><b>Data Analytics</b> <b>(has update for the period)</b></p>	<p><b>Objective of the project:</b> The objective of the Data Analytics Working Group (WG) is to:</p> <p>A) Explore emerging developments in audit data analytics; and B) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe.</p> <p><b>Background and current status:</b> Information gathering on data analytics began in April 2015 and the Data Analytics Working Group will continue with its planned outreach activities in future. The DWAG published its first publication "The IAASB's Work to Explore the Growing Use of Technology in the Audit" in June 2016.</p> <p>At the March meeting, the IAASB received a video presentation of a panel discussion among members of the DAWG that was presented at the International Forum of Independent Audit Regulators Inspections Workshop.</p> <p>The Chair of the DAWG provides an <a href="#">update</a> on the project in February 2017 on the IFAC website.</p> <p>In its June 2017 meeting, the IAASB received a presentation of high-level observations from respondents to the IAASB's Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics. It was noted that respondents supported the IAASB in undertaking this work and encouraged continued active participation of the Data Analytics Working Group in other current standard-setting projects of the IAASB underway.</p> <p><b>Update for the period</b></p>

Appendix A: IAASB Project and their latest status.

	<p>The IAASB received a <a href="#">presentation</a> of more detailed observations from the responses to the Request for Input and an update on the future plans for the project.</p>
<p><b>Emerging External Reporting (No update for this period, remains the same from last international update)</b></p>	<p><b>Objective of the project:</b> The objective of the Integrated Reporting Working Group (IRWG) is to:</p> <ul style="list-style-type: none"> <li>A) Explore emerging developments in integrated reporting and other emerging developments in external reporting;</li> <li>B) Gather further information on the demand for assurance, the scope of the assurance engagement and the key assurance issues; and</li> <li>C) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe.</li> </ul> <p><b>Background and current status:</b> At its September 2014 meeting the Innovation WG proposed, and the IAASB agreed to establish a WG to specifically monitor the developing interest in integrated reporting and the demand for assurance on integrated reports. This includes initial thinking on the nature of such engagements, including the scope of the assurance engagement, the suitability of the criteria, and other matters related to assurance on integrated reports. The Board considered the draft working paper prepared by the IRWG <a href="#">Supporting Credibility and Trust in Emerging Forms of External Reporting</a> in its June 2016.</p> <p>The Discussion Paper was issued in August 2016.</p> <p>In its June 2017 meeting, the IAASB received a presentation about the high-level observations from the comment letters received to the Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting. It was noted that respondents generally supported the development of guidance on how to apply existing international assurance standards rather than developing new standards, and that the IAASB should continue to provide thought leadership on assurance issues and coordinate its work with other relevant organizations.</p>
<p><b>Agreed-Upon Procedures (has update for the period)</b></p>	<p><b>The objective of the project is to:</b></p> <ul style="list-style-type: none"> <li>A) Revise International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information in the Clarity format; and</li> <li>B) Consider whether standard-setting or other activities may be appropriate for engagements that use a combination of procedures derived from review, compilation and agreed-upon procedures engagements (also known as "hybrid engagements"), in light of the existing standards that may be applicable to these services in the IAASB's current suite of standards.</li> </ul> <p><b>Background and current status:</b> During consultations on the IAASB's 2015-2019 Strategy and the related 2015-2016 Work Plan, many stakeholders expressed the need to revise ISRS 4400 to meet the growing demand for agreed-upon procedure engagements. In response to the stakeholders' comments, the IAASB established a working group to explore issues involving agreed-upon procedure engagements. The issues identified and discussed at the IAASB meetings will be used to revise ISRS 4400 and possibly develop</p>

Appendix A: IAASB Project and their latest status.

	<p>new standard(s) or guidance that would address engagements where there is a combination of agreed-upon procedures and assurance.</p> <p>The Agreed-Upon Procedures (AUP) Working Group presented a first draft of its Discussion Paper, <a href="#">Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's Standards</a>, to the Board in June 2016. The IAASB provided the AUP Working Group with input to enhance the Discussion Paper and suggested that the paper pose a question to explore whether the IAASB should develop guidance on multi-scope engagements. The AUP Working Group will present a revised draft of the Discussion Paper at the September 2016 IAASB meeting.</p> <p><b>Update for the period:</b></p> <p>In its September 2017 meeting, the Board discussed the feedback received on the Discussion Paper and <b>approved</b> a standard-setting project proposal to revise ISRS 4400, subject to clarifications around the use of judgment, independence, restriction of the report of factual findings and required documentation.</p>
<p><b>ISA 315 (Revised)</b> <b>(has update for the period)</b></p>	<p><b>The tentative objectives of the projects at this stage are:</b></p> <ul style="list-style-type: none"> <li>A) to address the issues that have been identified by the ISA Implementation Monitoring project.</li> <li>B) Possible changes that may be necessary to ISA 315 (Revised) to enhance the requirements and guidance for evolving environmental influences (such as changing internal control frameworks and more advanced technology systems being utilized by both management and auditors).</li> <li>C) In its June 2016 meeting, the IAASB directed the ISA 315 (Revised) Working Group to present a project proposal for the IAASB's consideration at its September 2016 meeting to commence standard-setting activities. The <a href="#">project proposal</a> was presented and approved in the IAASB's September 2016 meeting.</li> </ul> <p>Since the December 2016 IAASB meeting, the task force has had one physical meeting and two teleconferences to develop the <a href="#">March meeting papers</a>.</p> <p><b>Update for the period</b></p> <p>In September 2017, the ISA 315 Task Force presented proposed changes to the requirements in ISA 315 (Revised) to address identified issues relating to understanding the entity and its environment, including the applicable financial reporting framework, and internal control, including obtaining an understanding of the five components of internal control. The Board broadly supported the proposals, but asked for consideration about some of the proposed changes to the definitions, as well as the perceived focus on controls in obtaining the necessary understanding of the components of internal control. With regard to proposed changes to the identification and assessment of inherent and control risk, the Board supported a separate assessment of inherent and control risk, but asked that the ISA 315 Task Force further consider how this works practically and highlighted that further clarification is needed relating to the assessment of control risk.</p>



NZ AUDITING  
AND ASSURANCE  
STANDARDS BOARD

**DATE:** 12 October 2017

**TO:** Members of the New Zealand Auditing and Assurance Standards Board

**FROM:** Peyman Momenan

**SUBJECT:** Domestic Update

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### **Introduction**

1. This Update summarises the significant news from Financial Market Authority, New Zealand Institute of Chartered Accountants and other organisations for the Board's information, for the period September and October 2017.

### **Financial Markets Authority (FMA)**

1. There have been no significant developments related to audit and assurance to report in the period.

### **The New Zealand Institute of Chartered Accountants**

1. CAANZ has published the following articles relevant to assurance practitioners in July and August and July 2017:
  - [Charity reporting - the bigger picture](#)
  - [Feel like a superhero sometimes? You could be an auditor](#)
  - [Auditing accounting estimates](#)

### **CPA Australia**

1. There have been no significant developments related to audit and assurance to report in the period.

### **The Institute of Directors (IoD)**

1. The IoD's Four Pillars of Governance Best Practice is a comprehensive guide for people serving in governance roles. The latest refresh, released to IoD members in September 2017, builds on the knowledge bank of previous editions with new sections on sustainability, human rights in business, state sector governance and Māori-owned entities. It also picks up on global trends relating to stakeholder engagement, board diversity and technology and information governance.



**To: NZAuASB members**  
**From: Rowena Sinclair**  
**Date: 12<sup>th</sup> October 2017**  
**Re: Academic update 2017/6**

With the release of *ED 2017-2 The Audit of Service Performance* it is timely to look at an earlier study on statements of service performance. Next the matter of audit quality is again considered, before reviewing two studies on earnings management.

**(1) Statement of Service Performance**

**Condie, Dunmore & Dunstan (2013)**'s study considers the readability of the statements of service performance (SSPs) issued by New Zealand universities. Of particular interest to auditors is the location of the SSP. Two of the universities' SSPs were presented "*in five distinct parts, interrupted by four sections of unaudited supplementary information*" (**Condie, et. al 2013, p. 173**). This "*makes it hard for the reader to determine what material is part of the SSP and what is not*" (**Condie, et. al 2013, p. 181**).

For organisations new to preparing SSPs the study provides insight into factors that aid readers' readability including: "*whether related measures are grouped together; how many contiguous sections the SSP is broken up into; the number of pages and number of performance measures in the SSP*" (**Condie, et. al 2013, p. 183**).

**(2) Audit Quality (AQ)**

**Christensen, Glover, Omer & Shelley (2016)**'s US study offers an interesting juxtapose of the views of 109 auditors and 102 investors on their definition of audit quality. *Figure 1* maps these in terms of the audit framework.

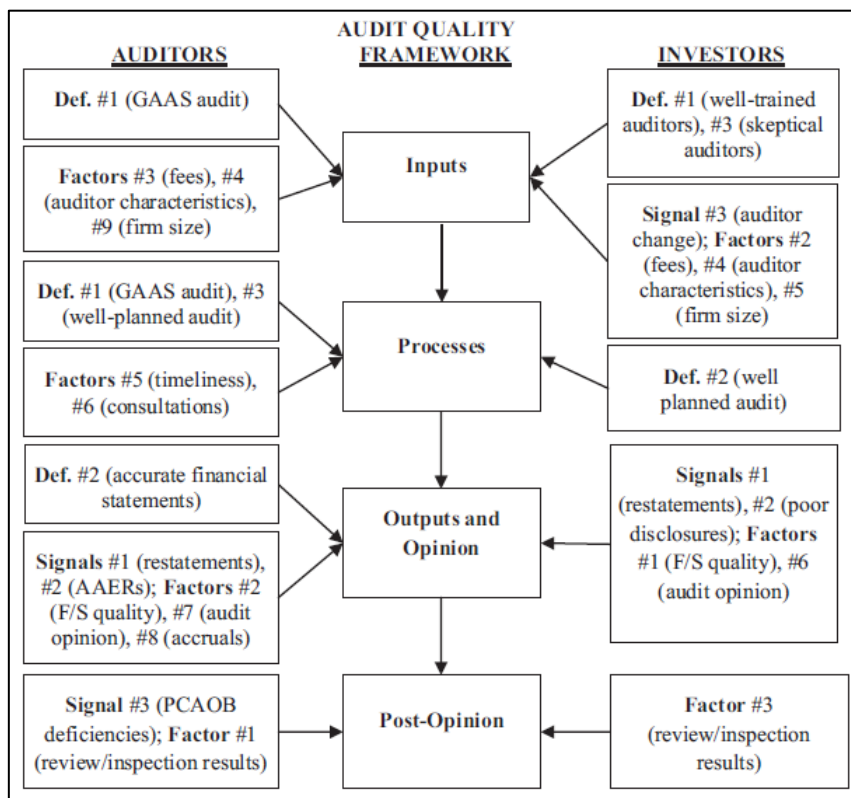


Figure 1 Mapping of auditor/investor AQ definition to AQ framework (**Christensen, et. al 2016, p. 1673**)<sup>1</sup>

<sup>1</sup> Key: AAER (Accounting and Auditing Enforcement Releases); GAAS (Generally Accepted Auditing Standards).



### **Audit Quality & Audit Partner Busyness**

Previous studies have found that audit quality might be impaired when a partner audits a large number of clients. However, **Goodwin & Wu (2016)**'s Australian study highlight the 'equilibrium condition' that causes value-maximising auditors and clients to their resource allocation. **Goodwin & Wu (2016)** consider that the message for policymakers is "*market mechanisms and self-regulation of the audit profession function well in curbing the detrimental effects of partner busyness in Australia*" (**Goodwin & Wu 2016, p. 370**).

### **Audit Quality & Audit Partner Quality**

With the name of the engagement partner on the audit report it is timely to look at **Wang, Yu & Zhao (2015)**'s China study on the association between audit partner quality and financial report misstatements. The study found that "*audit-partner past performance, measured by the audit failure rate, predicts the probability of future restatements for audited financial reports*" (**Wang, et. al 2015, p. 106**). This study is possible as the China Institute of Certified Public Accountants (CICPA) posts on their website "*the number of times each audit partner has been sanctioned due to an audit failure, the date, reason, and nature of the sanction*" (**Wang, et. al 2015, p. 106**).

### **(3) Earnings management**

**Luippold, Kida, Piercey & Smith (2015)**'s study identifies audit clients who manipulate earnings and successfully employ diversions to influence auditors. The US study involved 76 auditors with an average of four years of audit experience. The study found that "*diverting auditors to clean accounts can deter them from finding managed earnings*" (**Luippold, et. al 2015, p. 51**). More importantly the study showed "*the variability in scepticism displayed by auditors suggests that there is room for further growth, through added practice and training*" (**Luippold, et. al 2015, p. 51**).

**Barac, Vuko & Sodan (2017)**'s Croatian study considers the nature of International Accounting Standards (IAS) violations that resulted in modified audit opinions. Violations mainly related to IAS 39 Financial Instruments – Recognition and Measurement (32%) and IAS 16 Property, Plant and Equipment (30%). The study included a survey of audit client's manipulation techniques from their auditor. **Barac, et. al (2017, p. 803)** found "*that:*

- *hiding bad performance, getting better terms of crediting by banks and minimizing fiscal and political costs are perceived as main motives for manipulative actions;*
- *write-off of accounts receivables, inventory measurement policy, depreciation policy and provisions are perceived to be the most frequent (i.e. riskier) areas of accounting manipulations.*

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