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Robert Buchanan, Chair  
New Zealand Auditing and Assurance Standards Board  
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Via website

27 October 2021

Dear Robert

**Proposed Amendments to Professional and Ethical Standard 1: Non- Assurance Services dated July 2021 (the "PES 1 Proposal") issued by The New Zealand Auditing and Assurance Standards Board ("NZAuASB") on behalf of the External Reporting Board ("XRB")**

We are pleased to have the opportunity to provide comments to the Proposed Amendments to Professional and Ethical Standard 1: Non- Assurance Services dated July 2021 (the "PES 1 Proposal") issued by The New Zealand Auditing and Assurance Standards Board ("NZAuASB") on behalf of the External Reporting Board ("XRB").

KPMG appreciated the opportunity to discuss the proposals at the roundtables facilitated by the XRB last month.

The PES 1 Proposal is based on the International Ethics Standards Board for Accountants (IESBA) revision of the nonassurance service (NAS) provisions of the IESBA Code. The objective of the revision was to strengthen the International Independence Standards by addressing public interest concerns about the perceived lack of independence when firms provide NAS to their audit (and assurance) clients, in particular those that are Public Interest Entities (PIEs).

KPMG is supportive of the changes made by IESBA which in summary raise the bar, potentially significantly, in terms of those factors that audit firms need to consider before providing NAS to audit clients, through the removal of materiality when considering the provision of NAS and prohibiting services which "might" create a self-review threat. Rather than repeat the detail of these factors, we believe the changes are well encapsulated, and as highlighted in your explanatory materials, in the words of Dr. Stavros Thomadakis, IESBA Chair, who summed up the changes:

*"The new standard is efficient, stringent and objective. It is efficient because with one principles-based prohibition it in fact prevents the provision of a whole set of NAS to audit clients. It is stringent because it eliminates not simply all NAS that give rise to a self-review threat [for PIEs] but all NAS that might give rise to a self-review threat, i.e., not just the fact but even the mere possibility of a self-review threat occurring. It is objective because, as specified in the revision, the prohibition does not depend on a materiality threshold. So, it is not a matter of judgement whether the prohibition will bite or not. It will bite for PIEs."*

However, the NZAuASB has taken the opportunity to propose a number of amendments including some that go further than those made by IESBA, principally that it should strengthen the position in relation to the provision of tax advisory and tax planning services to an audit client that is a PIE. The NZAuASB proposes that the provision of such services (which includes tax return preparation services) should be prohibited.

We suggest the NZAuASB take the below comments into consideration in finalising its drafting.

**Our Comments**

1. A key strategic objective set by the XRB Board for the NZAuASB is to adopt international auditing and assurance standards, including professional and ethical standards, in New Zealand with modifications acceptable where there is a compelling reason, and provided such modifications consider the public interest in New Zealand and do not conflict with or result in lesser requirements than the international standards. The NZAuASB already acknowledges the view that the revised IESBA provisions substantially raise the bar on prohibiting the provision of NAS. None of the arguments raised by the XRB actually demonstrate

a compelling reason as to why modifications to the international auditing and assurance standards are required.

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## New Zealand Auditing and Assurance Standards Board

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In developing the reforms, we understand that IESBA consulted extensively and concluded that an outright prohibition for tax services was not warranted. Noting such expert consideration regarding such services and the impact on audit independence, unless there is tangible evidence demonstrating that New Zealand tax/audit independence environment is fundamentally different or that audit failure in relation to such services has been meaningfully identified, it would appear inappropriate for the XRB to create a stricter auditor independence regime in New Zealand. In particular, it puts New Zealand at a commercial/regulatory disadvantage when compared to its major business partners such as Australia, Japan, Singapore and the United States and introduces a number of inherent, and possibly unintended, consequences which we discuss further in 4. below.

2. While appreciating the perception point, but without meaningful evidence of audit, or audit independence, failure as a consequence of tax advisory services, prohibiting such services would appear to be ultimately detrimental to quality of services and result in increased compliance costs for practitioners and greater inefficiency and professional services costs for the business community.
3. As acknowledged in your explanatory papers, there is already evidence in New Zealand that the level of NAS compared to audit services is relatively low for audit clients that are PIEs. This statement is supported by our own analyses that also indicate that this ratio has been decreasing in recent years as audit firms (and Audit Committees) have looked more critically at the services audit firms have been asked to perform so as to avoid any risk, even perceived, that the provision of the NAS impairs auditor independence.

As already noted above, the IESBA changes in themselves already raise the bar and will further reduce the levels of NAS provided to PIE audit clients including some of the very services addressed by the NZAuASB proposed amendments.

4. Assuming the proposals are adopted without amendment, auditors of PIE clients will inevitably have to address several scenarios where clarity should be given by the NZAuASB, for example:
  - a. Entity A (a PIE) has a subsidiary (non-PIE) based in Australia – do the rules extend to that jurisdiction so that on a group basis, the group auditors can assert compliance with the PES 1 Proposal?
  - b. Entity A (a PIE) has an associate (non-PIE), Entity B, based in New Zealand and audited by a firm other than A's auditors. B is material to A. Do the rules extend to the associate?

Detailed guidance would need to be provided to enable auditors to comply throughout a group.

Yours sincerely

**Godfrey Boyce**  
CEO

