

NZAuASB webinar Auditor rotation

June 2017

Objectives

- Understand the finalised international provisions
- New Zealand key issues open for comment
- What feedback does the NZAuASB seek?

Background

- International Code has changed
 - Strengthened general provisions
 - Public Interest Entities (PIEs)

	Extant	Revised
Engagement partner (EP)	Maximum 7 years on Minimum 2 years off	Max 7 years on Min 5 years off
EQCR		Max 7 years on Min 3 years off
Other Key audit partner (KAP)		Max 7 years on Min 2 years off

International provisions

- Clarified “cumulative” time on not consecutive
- Covers service in a combination of roles
- Further restrictions on activities while “off”
- In some jurisdictions, a shorter cooling off period allowed for a limited time

Do you agree that New Zealand should adopt the revised international requirements?

What is a PIE?

- Listed entity
- An 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 as listed entities
- Encourage firms and member bodies to determine whether to treat additional entities as PIEs because they have a large number and wide range of stakeholders.
 - Factors to consider include: the nature of the business, such as holding 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.

New Zealand PIEs

Tier 1 for profit accounting requirements				Tier 1 PBE accounting requirements		
Listed issuer	Other FMC reporting entities	Large for-profit public sector entities	May opt down, voluntarily applies tier 1	Large public sector entity	Large not-for-profit entity	Other FMC reporting entities
	Banks, insurers, other issuers, schemes					

Does the New Zealand PIE definition remain appropriate?

Is applying the revised requirements to all PIEs in the public interest?

Why do entities voluntarily opt to use tier 1 and how many do so?

Impact in New Zealand

- Extended cooling off period applies to PIEs
 - Broadly defined in New Zealand to include all entities using Tier 1 accounting standard requirements
- Listed entities will have a 5 year on, 5 year off rotation cycle
- PES 1 also has mandatory rotation for other assurance engagements

Transitional provisions

- To facilitate the transition

Where a 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

- A minimum 3 year cooling off period is permitted for periods beginning prior to Dec 2023

What is the impact of this provision?

NZX requirements

Role	Proposed NZ Code		Proposed NZ Code with NZX requirements		Proposed AUS Code with Corps Act	
	Time on	Time off	Time on	Time off	Time on	Time off
EP	7	5	5	5	5*	3
EQCR	7	3	7	3	5*	3
Other KAP	7	2	7	2	7	2

Do you consider there to be unintended consequences if the rotation requirements differ for dual listed entities (listed on the NZX and ASX) ?

New Zealand specific amendments

- Apply the same rotation requirements for all PIEs for audits, reviews and other recurring assurance engagements
- The international code does not include the PIE requirements for other assurance engagements.

Do you agree that the rotation requirements should align for all assurance engagements?

Effective date

- Effective for audits of financial statements for periods beginning on or after 15 December 2018
- Retrospective application

	Old rules apply	New Rules apply
EP rotated off 31 Dec 2016	May come back after 2 years (i.e. Dec 2019)	
EP Rotated off 31 Dec 2017		May only come back after 5 years (i.e. For Dec 2023)
EP Rotated off 31 Dec 2018		May come back after 5 years

Effective date

Dec 2016 (Year 7)	2017	2018	2019 (Yr 1)	2020 (Yr 2)	2021 (Yr 3)	2022 (Yr 4)	2023
EP	X	X	EP	EP	EP	EP	EP

Dec 2017 (Year 7)	2018	2019	2020	2021	2022	2023 (Yr 1)	2024 (Yr 2)
EP	X	X	X	X	X	KAP	KAP

FAQs

- IESBA staff issued FAQs
- NZAuASB expecting to issue New Zealand FAQs in July
 - Transitional arrangements
 - Subsidiaries of PIEs
 - Combination of roles
 - Breaks in service
 - Half year reviews.....

Submissions to the NZAuASB

- Comment period closes 31 July 2017
- Seeking evidence based feedback
 - Data to support claims that the proposals are unworkable



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