

Board Meeting Agenda

6 September 2017

9.15 am to 5.00pm

Manners Street, Wellington

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
B: PUBLIC SESSION					
10:30 am	3	<u>Long association</u>			
	3.1	Board meeting summary paper	Note	Paper	
	3.2	Detailed analysis of submissions received	Note	Paper	
	3.3	Issues Paper	Consider	Paper	
		<u>Supplemental papers</u>			
		Submissions received	Note	Paper	
12:00 am	4	<u>Strategic Action Plan 2017/22</u>			
	4.1	Board meeting summary paper	Note	Paper	
	4.2	SAP 2017-2022	Approve	Paper	
	4.3	SAP 2017-2 Indicative Resourcing 2017-2020	Approve	Paper	
	4.4	SAP 2017-2 Indicative Timing 2017-2020	Approve	Paper	
	4.5	SAP Implementation plan 2017/18	Approve	Paper	
12:30 pm	<i>Lunch</i>				
1:15 pm	5	<u>Auditor Reporting Report with FMA</u>			
	5.1	Board meeting summary paper	Note	Late Paper	
	5.2	Update on progress	Approve	Late Paper	
2:15 pm	6	<u>Guidance on SAE 3100 (Revised)</u>			
	6.1	Board meeting summary paper	Note	Paper	
	6.2	Draft Guidance	Consider	Paper	
	6.3	Discussions with the OAG	Note	Paper	
3:00 pm	<i>Afternoon tea</i>				
3:15 pm	7	<u>PES 1 (Revised) Restructure</u>			
	7.1	Board meeting summary paper	Note	Paper	
	7.2	Issues Paper	Consider	Paper	
	7.3	NZ Marked Changes to Agreed-in-Principle Text	Note	Paper	
3:45 pm	8	<u>Integrity of ISAE (NZ) 3000</u>			
	8.1	Board meeting summary paper	Note	Paper	
	8.2	Report on Findings	Consider	Paper	
4:10 pm	9	<u>Modified auditor reports update</u>			
	9.1	Board meeting summary paper	Note	Paper	
	9.2	Summary of modified audit reports	Note	Paper	

Est. Time	Item	Topic	Objective		Page
4:40 pm	10	<u>Environmental Scanning</u>			
	10.1	International monitoring update	Note	Paper	
	10.2	Domestic monitoring update	Note	Paper	
	10.3	Academic research update	Note	Paper	
C: NON-PUBLIC SESSION					

Next meeting: 25 October 2017, Wellington

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 3.1
Meeting date: 6 September 2017
Subject: Long association
Date: 24 August 2017
Prepared by Misha Pieters

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To:

- CONSIDER feedback received in response to ED NZAuASB 2017-1 *Proposed Amendments to PES 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client*;
- AGREE amendments to PES 1 (Revised) for approval in October;
- AGREE next steps with respect to the definition of a public interest entity (PIE) in New Zealand.

Background

1. The NZAuASB issued its exposure draft in May 2017. The consultation period closed on the 31 July 2017. Nine submissions were received from New Zealand stakeholders.
2. The submissions received are included for NOTING by the Board in the supplemental papers to the agenda. A detailed analysis of the submissions received is included at agenda item 3.2.
3. We have summarised the key areas arising from the submissions received in an issues paper at agenda item 3.3. The key matters for discussion include:
 - a. Whether to amend the definition of a public interest entity in New Zealand, and if so, how?
 - b. What further action to take to align the requirements across the Tasman;
 - c. Whether to defer the mandatory adoption of the extended 5 year cooling off provisions in New Zealand;

- d. Whether to continue to align the PIE requirements applicable to audit and review engagements for all assurance engagements in New Zealand, i.e. extend the rotation rules for other assurance engagements from 7 years on to 2 years off to the 7 and 5 required for audits.

Australian update

4. The Chair of the NZAuASB and Senior Project Manager attended the Accounting Professional and Ethical Standards Board (APESB) meeting in Melbourne on the 22nd of August. The APESB agreed to issue a close off document in Australia and will look to issue frequently asked questions and develop a plan to address implementation issues over the transitional period. The APESB expressed the desire to work closely with the NZAuASB to develop transitional guidance material and address issues like the differences between Australia and New Zealand listing requirements. We provided an update on the New Zealand project and key themes from the submissions received in New Zealand.
5. We also explored differences in the definition of a public interest entity within Australia and New Zealand. The APESB has adopted a deeming approach identifying certain APRA regulated entities as PIEs. However the overarching paragraph in the international Code that encourages firms to treat entities that impact a large number and wide range of stakeholders still has to be applied and therefore conceptually would include large charities and others. So whilst the New Zealand PIE definition is clearer and more prescriptive about which entities are PIEs, there is likely to be a high level of overlap between the two jurisdictions.

Recommendations

6. We recommend:
 - a. Adopting the revised IESBA requirements in New Zealand;
 - b. Amending the PIE definition to exclude “voluntary PIEs”. We do not consider that this will require further exposure;
 - c. Retaining all “mandatory” tier 1 entities within the PIE definition (not limiting the PIE definition to FMC reporting entities considered to have a higher level of public accountability);
 - d. Amending the existing New Zealand paragraphs that apply to assurance engagements other than audits and reviews as proposed;
 - e. Not to include a cooling off period that differs from the 5 year time frame required by the IESBA within PES 1 (Revised);
 - f. To align the effective date of the amendments for audits and reviews with the effective date of the revisions made by the IESBA (i.e. Dec 2018) but consider deferring the effective date for other assurance engagements until 2023 (this is IESBA plus so there is the option to defer).
7. We consider that further guidance (possibly outside of the Code) will be needed to clarify:
 - a. How the long association requirements will apply to recurring engagements that are performed every other year?
 - b. How the NZX listing rules interact with the Corporations Act in Australia.

8. We recommend that the NZAuASB consider whether there is a need to discuss exemptions with the Financial Markets Authority (FMA).
9. If the Board agrees with staff recommendations, we recommend that the amendments to PES 1 (Revised) can be approved by the NZAuASB at the October meeting as proposed, with the addition of amendments to the PIE definition to remove voluntary PIEs.

Material Presented

Agenda item 3.1	Board Meeting Summary Paper
Agenda item 3.2	Detailed analysis of submissions received
Agenda item 3.3	Issues Paper
<i>Supplemental papers</i>	
Agenda item 3A	List of submissions received
Agenda 3A.1	KPMG
Agenda 3A.2	Ernest & Young
Agenda 3A.3	Deloitte
Agenda 3A.4	Chartered Accountants Australia and New Zealand
Agenda 3A.5	NZX
Agenda 3A.6	Office of the Auditor General
Agenda 3A.7	Bruce Mc Niven (CONFIDENTIAL)
Agenda 3A.8	Silks
Agenda 3A.9	Laura Addinal

Long Association – Compilation and detailed analysis of responses

1. Eight submissions, and one query, were received in response to ED NZAuASB 2017-1, *Proposed Amendments to Professional and Ethical Standard 1 (Revised) Provisions Addressing the Long Association of Personnel with an Assurance Client*. The following is a list of submitters:
 - i. Bruce McNiven – in own capacity – assurance support manager for mid-tier firm in Wellington (Requested that submission not be published)
 - ii. Cameron Town - Silks
 - iii. Laura Addinall – a query rather than a submission, and the response is included in question 7.
 - iv. Ernest & Young
 - v. KPMG
 - vi. Deloitte
 - vii. Chartered Accountants Australia and New Zealand
 - viii. NZX¹
 - ix. Office of the Auditor-General (OAG)

Overarching comments

2. Overarching comments support alignment with the international requirements despite concerns with respect to the changes made internationally. The matters raised for further consideration (explored in the detailed response to the more specific questions) are how to reduce the number of entities affected or by deferring the effective date.

Submitter	Comment	Staff comment
E&Y	In summary, we believe that, in the NZ context, the breadth of entities affected and the timeframe to address the new rules is likely to diminish audit quality in the short term. In New Zealand the current proposals combined with the wide PIE definition and lack of application of the transitional provisions will result in one of the smallest economies having some of the strictest rotation rules in the world. We consider it poor process to	The issues paper considers whether the NZAuASB considers it

¹ The NZX has not answered the specific questions raised in the ITC. The NZX responses have been included with the analysis of the relevant question by staff.

	<p>apply new standards retrospectively (acknowledging that this is due to the timeframe of the international standard's release) and believe there is a strong case to either reduce the number of entities affected (by changing the scope) and deferring the implementation date (to allow a more planned and managed approach).</p>	<p>necessary to amend the PIE definition (from para 9) and/or amend the effective date (para 46).</p>
CAANZ	<p>We appreciate the opportunity to comment on the Exposure Draft (the ED). We believe that it is essential that audit and assurance teams and firms are independent, both of mind and in appearance, of their clients. Furthermore we support a common international framework for making that assessment and the adoption of that framework in New Zealand. However, through our submissions to the International Ethics Standards Board for Accountants (IESBA) during the development of these changes, we expressed our concern about the potential impact of extended cooling off periods for Engagement Partners (EPs) and Engagement Quality Control Reviewers (EQCRs). There is no evidence to demonstrate that increasing the cooling off period for EPs and EQCRs to an arbitrary period will improve independence. Even if it did, we do not believe the potential gains, which would be incremental at best, justify the practical impacts and potential reduction in audit quality that the increase will cause.</p> <p>While we accept that the IESBA have issued their changes in relation to extending cooling off periods for EPs and EQCRs, we urge the NZAuASB to continue to raise concerns at the international level about the impact of these changes</p> <p>Impacts on the audit market and audit quality</p> <p>In our submissions to the IESBA we expressed our concerns in relation to the potential impact of extending the cooling of periods for EPs and EQCRs in countries with geographically dispersed audit client bases as we believe it is likely to negatively impact audit quality. Our key concerns are that the extension of cooling off periods will lead to a contraction of the audit market, as smaller firms may find it difficult to maintain a viable client base.</p>	<p>Noted</p> <p>Matter was raised at NSS.</p> <p>Concerns over contraction of the market have been noted by</p>

	<p>Clients may opt to move to larger firms where they will only have to deal with partner change, not firm change when auditor rotation is required. The changes may also increase the number of engagements where the EP and/or the EQCR is located in a different geographic area to the engagement team. A high level of direct audit partner (and EQCR) involvement with the client and the engagement team has been acknowledged to be a key driver of audit quality.</p> <p>In New Zealand we believe these issues are exacerbated by the extended definition of Public Interest Entities (PIEs) which will impose the extended cooling off period beyond those impacted in other jurisdictions.</p> <p>Practical difficulties</p> <p>The coordination of EP and EQCR rotation is already time consuming and costly for firms. Increasing the administrative complexity by introducing differing time-on and cooling off periods for different types of entities and different types of partners will only increase these costs. There is no compelling evidence that increasing the rotation time will, increase audit quality and therefore the costs of increasing rotation times appear to outweigh any benefit.</p> <p>We also understand that it is likely that the requirements for EQCRs in terms of industry experience and other qualifications will be increased in the revisions being proposed in the International Auditing and Assurance Standards Board's (IAASB) various standard setting projects. This would further reduce the pool of partners who can perform EQCR roles and increase the complexity of rotation management.</p>	<p>the Board previously.</p> <p>Options for the PIE definition are considered in the issues paper. (from para 9)</p>
Deloitte	<p>As noted in our detailed responses to the questions in Appendix 1 to this letter, we agree with certain of the New Zealand Auditing and Assurance Standards Board's (NZAuASB) proposals.</p> <p>However, we do not support the expansion of the requirements to all other assurance engagements. We have included our reasons for this position in Appendix 1, along with our comments in response to the particular questions raised, including those on the definition of a public interest entity which we consider needs improvement.</p>	<p>Noted.</p> <p>Considered in issues paper. (from para 52)</p>

OAG	<p>As you will be well aware, the translation of the international requirements on auditor rotation to the New Zealand context is not easy.</p> <p>The Auditor-General has previously submitted on the international proposals in submissions to the International Ethics Standards Board for Accountants (IESBA) dated 7 November 2014 and 11 May 2016. Copies of these submissions can be found on the International Federation of Accountants website.</p> <p>The significant matter that we wanted to draw to the attention of the IESBA was that the proposals, when translated to the New Zealand context, did not seem to reflect a proportionate response to those entities to whom the IESBA was primarily seeking to target. Whilst the IESBA was somewhat vague in defining the nature of the targeted entities, our sense was that the requirements were primarily aimed at those entities that solicit funds (such as donations and investments) from the public. In the New Zealand context this group of entities would be described as "FMC reporting entities considered to have a higher level of public accountability" under the Financial Markets Conduct Act 2013.</p> <p>We have some difficulty in the decision by the NZAuASB to automatically apply the international requirements to a seemingly wider group of entities in New Zealand (being those entities falling under the New Zealand definition of public interest entity) without attempting to establish comparability with the notion of a public interest entity internationally. As a consequence we do not know if the proposals achieve comparability with the international standard. We understand that comparability with international requirements is the primary principle applied by the NZAuASB in its standards setting activity.</p> <p>We suspect the proposed New Zealand requirements will exceed international requirements. We do not have any difficulty with an "international plus" requirement, as long as the anticipated benefits of that approach exceed the cost. To date, we have yet to be persuaded that the proposals satisfy the "cost/benefit" test.</p> <p>We understand that the definition of "public interest entity" in New Zealand was developed in the context of financial reporting. That definition was then applied to the independence provisions of the Code of Ethics in circumstances where the definition was seen as "proportionate" to the threat to independence. In our opinion, the NZAuASB needs to make a similar assessment on the application of the proposed requirements to "public interest entities". We think a proportionate response is to apply the requirements to</p>	<p>Considered in issues paper (from para 23)</p>
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	"FMC reporting entities considered to have a higher level of public accountability". We would note that this is the same category of entities that are subject to the key audit matters requirements in ISA (NZ) 701: <i>Communicating Key Audit Matters in the Independent Auditor's Report</i> .	
NZX	NZX is interested to see the outcome of this review, and what the market preference is for auditor rotation periods regarding the new proposed seven year "time-on" period and increasing the mandatory "cooling off" period from two to five years cycle to match the International Code of Ethics. We note that lengthening the time between rotations may reduce the pressure on an already small pool of auditors and issuers within New Zealand.	Noted, NZX considers the new rules may reduce pressure.

Responses to specific questions

Q1: Do you agree with the proposals to adopt the revised international requirements dealing with long association?

	Number of responses	Respondents
Yes	5	EY, KPMG, Deloitte CAANZ, NZX
No	3	Bruce, Cameron, OAG
Total	8	

3. The majority of submitters agree with the proposal to adopt the international requirements. Those that do not agree, and would prefer not to adopt the international requirements, are from the smaller firms and the OAG (more in the context of scope than in content).
4. Concerns raised include contraction of the market and the potential for a negative impact on audit quality. The need for a minimum of four audit partners per client has already been noted by the Board, noting especially the difficulty that this poses for remote locations and specialised industries.
5. We continue to recommend that the NZAuASB adopt the revised IESBA requirements.

Submitter	Comment	Staff comment
E&Y	We support the convergence of New Zealand standards with international standards and therefore agree with the proposal to adopt these revised requirements.	Noted

KPMG	<p>In general we agree with the rationale to adopt international requirements to ensure that the New Zealand requirements maintain consistency with the international requirements.</p> <p>However we do believe that in the case of long association, the size of the NZ economy has a significant impact on the application of the revised rules. The changes are more likely to hinder audit quality than help. As an example, a listed entity would essentially require 4 licensed audit partners to service the client. Those being:</p> <ul style="list-style-type: none"> - Current engagement partner, - Current EQCR - 2nd Engagement partner (in cooling off period) - 2nd EQCR (in cooling off period) <p>If the auditor also audited a competitor client who requested separate teams, this would require at least a further 2, if not a further 4 audit partners to service this client.</p> <p>Given the size of the NZ economy, there is unlikely to be 6 or more audit partners at one audit firm who all have equal expertise in a particular industry. Therefore by default, an audit partner with less industry experience will be required to rotate onto the client to achieve the long association rules. For smaller firms this number of partners would not be achievable which reduces the choice of auditors for entities.</p>	Note support for consistency with the IESBA requirements however with concerns raised as to the practical implications.
CAANZ	<p>On the basis that it allows New Zealand to continue to comply with international professional and ethical standards, we agree with the proposals. However, there are concerns to be addressed and actions to be taken to ensure that the potential negative impacts of these changes are minimised.</p>	Note support for consistency with the IESBA requirements.

Deloitte	We support the NZAuASB's approach to adopt applicable international auditing standards, including international ethical standards. Our preference is for international standards to be adopted unchanged unless there are compelling reasons for differences in the New Zealand market. We do not believe that there are any compelling reasons for difference in respect of the long association proposals which we discuss further below.	Note support for consistency with the IESBA requirements.
NZX	NZX agrees it is important for New Zealand's auditor rotation requirements to be of a high standard and, to the extent practicable, to align with international codes. Given the large number of companies listed on both NZX and ASX another important consideration in the New Zealand context is to ensure alignment with the position in Australia to the extent practicable.	Note support for consistency with the IESBA requirements.
OAG	No, not in the manner set out in ED NZAuASB 2017-1. Please refer to the comments in our covering letter, which provides the context for our disagreement.	Note disagreement and concerns about the scope of the requirements in New Zealand. PIE definition is considered in the issues paper from para 9.
Bruce McNiven	<p>Don't do it!</p> <p>The NZ audit market is too small to adopt international requirements, given the small number of audit firms with 3 or more partners (which allows partner rotation in a firm) and the overall decline in the number of licenced audit partners and firms, I can see this would have a negative impact on the audit profession.</p> <p>As it is the audit profession has far too much regulatory compliance costs to incur and we do not need any further changes. This change would only increase the costs of an audit, which would have to be passed on to clients in an economy</p>	Noted. However the majority view is supportive of continuing to align with the IESBA requirements.

	<p>already saturated with high compliance costs.</p> <p>The cooling off period is far too long and would have little impact on the audit, it would just be an annoying administrative exercise having to find other partners in NZ (outside of the firm/group), to assist with the audit.</p> <p>With an aging population, and the age of many audit partners in NZ, many being over 50, by the time the cooling off period finishes, the audit partner may have no interest in the audit again or be retired.</p> <p>It will have the impact of further reducing the number of licensed audit firms in NZ. As we have already seen the number of licenced firms is steadily declining, thus reducing the variety and arguably the quality of audits in NZ.</p> <p>I would suggest if this change is implemented, we will see that only the big 4 will be involved in FMC/PIE audits, as they have more audit partners. There will be a reduction of choice, of competition, and of quality in the audit profession. (just because they are big 4 doesn't mean they can do a better audit than a 2nd tier firm)</p>	
Cameron Town	<p>We are a regional audit practice with three licensed auditors and I have concerns that a broad change as this could affect regional audit practices and the overall possible effect this may have on a continual reduction in licensed auditors in New Zealand.</p> <p>This could lead to issues with only a few audit practices holding a monopoly in the audit space of FMC entities. With a reduction in number of possible audit firms the possible impact this will have on</p>	Note concerns raised for regional practices.

	<p>timeliness and cost to the smaller FMC entities.</p> <p>Ensuring all current licensed auditors have sufficient FMC audit work to ensure they are maintaining standards and improving quality, which is at the forefront of the objectives of the FMA, then this proposal for smaller to medium size practices may potentially hinder this overall objective of the FMA in regards to audit quality. This also may lead to some practices to consider whether they wish to continue to engage in the FMC assurance engagements.</p> <p>We audit a number of FMC entities where the investment is passive in nature i.e. forestry and what benefit would the users of the financial statements in such investments where the forestry is in the growth phase of the investment where very few transactions occur on an annual basis in extending the cooling off period.</p> <p>Consideration to a benchmark or minimum capitalisation threshold of the entity or listed on the stock exchange where shares are actively traded on a regularly basis then the benefits may warrant the proposed further cooling off period.</p> <p>Further possible industry related sectors where investment capital has been raised and the nature of the investment is long term in years or maturity such as forestry then the cooling off period becomes a potential burden.</p>	<p>PIE definition is considered in the issues paper from para 9.</p> <p>The option for exemptions is raised in the issues paper (para 35-39)</p>
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Q2 Do you agree that:

(a) The New Zealand PIE definition remains appropriate in light of the international changes made to the long association provisions?

	Number of responses	Respondents
Yes	1	Bruce

No	5	EY, KPMG, Deloitte, CAANZ, OAG
Total	6	

(b) applying the revised requirements to all PIEs as defined in New Zealand is in the public interest?

	Number of responses	Respondents
Yes	4	Bruce, EY, KPMG, Deloitte
No	1	OAG
Total	5	Respondents

If not, please explain why and for which entities. Please expand on whether your concerns are related to auditor supply pressures (quantified where possible), or unintended consequences, or both. It is important we have evidence to justify our decisions. Please bear in mind that the PIE requirements extend beyond the long association requirements, and therefore the impact of amending the PIE definition is not limited to long association considerations.

6. Almost all submissions received did not consider that the New Zealand PIE definition is appropriate. The biggest concern raised was the inclusion of voluntary PIEs. This is explored in more detail in response to question 3 and is covered in the issues paper.
7. However the majority of submissions did not raise further suggestions for amendments to the PIE definition. The OAG's submission recommended limiting the PIE definition to FMC reporting entities considered to have a higher level of public accountability (HLPAs) and a submission from Silks that suggested a market capitalisation limit be considered.

Submitter	Comment	Staff comment
Bruce McNiven	(a) Yes (b) Yes. Note under paragraph 17 that Credit unions should be classified as PBE's not-for-profit entities.	Noted.
E&Y	(a) We do not agree the New Zealand PIE definition is appropriate. We believe that the definition of a PIE in New Zealand is too broad. The challenges posed by the changes to the long association provisions are exacerbated by the wide PIE definition.	Concern for broad definition noted.

	<p>We note the definition of a PIE in Australia is the same as the international definition. We do not consider that there are significant differences between the Australian economy and New Zealand economy which justifies a difference in the definition of a PIE. The new long association provisions will have a less disruptive impact on the Australian environment as fewer entities are caught under their PIE definition.</p> <p>As the New Zealand PIE definition is so broad and because the timeframe for adoption of this amendment is so short, a very large number of entities' audits will be impacted by these changes in a very short timeframe. In our view, this may negatively impact audit quality. The proposed effective date of "periods beginning on or after 15 December 2018" and the IESBA FAQs, which make it clear that a lead audit partner must have completed their cool-off prior to the start of the audit period following the aforementioned date, mean we have already passed the final date for rotation of most audits under the old rules. This makes the new rules retrospective. Given the very large number of entities caught under the PIE rules in New Zealand and the relatively small auditor marketplace, this provides significant challenges to rotate audits affected in a fashion which promotes and maintains audit quality, especially in specialist industries. We note that the exposure draft itself states in paragraph 22 that "audit firms will need time to consider the implications, especially in remote locations or in industries that require specialist expertise".</p> <p>As we understand the new rules,</p> <ul style="list-style-type: none"> • For a December year-end, the new rules apply to the year-ending 31 December 2019, so an engagement partner must have cooled-off for the 2017 and 2018 years. This means that December 2016 is the last year that a partner can sign-off without needing to cool-off for 5 years, instead of 2 years. • For a June year-end, 30 June 2020 would be year 1 of the new rules, so an 	<p>The PIE definition in Australia adopts a deeming approach and captures listed entities, entities regulated by APRA and others.</p> <p>Noted (we have contacted EY to discuss the retrospective application of the requirements)</p>
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	<p>engagement partner must have cooled-off for FY 2017/8 and 2018/9, and the year-ending 30 June 2017 is the last year that a partner can rotate and still only cool-off for 2 years.</p> <p>In our view, a hurriedly introduced 5 year cooling off period may actually lead to diminished audit quality due to the small number of industry experienced partners available. We would contrast New Zealand with the US market where audit partners generally only work in 1-2 industries and are therefore much better placed to rotate on to new clients in the industry they are experienced in.</p> <p>Many entities which fall under the PIE definition are located in smaller towns and cities of New Zealand, where the supply of partners through which to rotate is (much) smaller. The larger accounting firms can allocate clients to partners in other offices, but we consider it more beneficial to have partners located geographically close to their clients. Such a solution may not be available to smaller firms.</p> <p>As a final observation, we note that many of the entities captured as PIEs in the table in paragraph 17 will be covered by the standards issued by the Auditor General.</p>	
E&Y	<p>(b) We agree that applying the revised requirements to a narrowed PIE definition is in the public interest. As previously outlined, we think that the definition of a PIE in New Zealand as it currently stands is too broad.</p> <p>We acknowledge that the PIE definition does not only impact long association matters. However, the proposal extends a retrospective arm to a very broad range of entities.</p>	Noted
KPMG	<p>(a) We do not believe the New Zealand definition of a PIE is appropriate. If international harmonisation is the aim, then the PIE definition should also be harmonised with other jurisdictions. The current definition captures a far larger number of entities than any similar definition in other jurisdictions that apply</p>	

	<p>similar independence requirements. We note none of the following jurisdictions:</p> <ul style="list-style-type: none"> - UK - USA - Canada - Australia <p>apply a PIE definition that is implicitly based on the accounting framework chosen. Instead they are based on whether the entity has exposure to the public at large or its size relevant to the economy. As noted above it is far more extensive than is experienced internationally and also deviates from international standard in that it is based solely on an accounting framework rather than whether the entity is of public interest. An implicit assumption has been made that if an entity prepares tier 1 financial statements it must be large which has proven to be untrue in practice. We believe it would be more appropriate to define a PIE as an entity that is classified as having higher public accountability by the Financial Markets Authority. As regulator of the market they have determined which entities are of public interest and require additional oversight given the impact they have on the market. We also note for the For Profit sector this definition is largely consistent with the definition of entities that are required to apply the tier 1 financial reporting framework. For PBE entities we believe entities should only be a PIE if they are required to prepare tier 1 accounts. Voluntary preparation should not force an entity to be classified as a PIE.</p> <p>(b) We believe that provided the PIE definition is updated to be consistent with other international definitions the requirements should be applied equally to all PIEs.</p>	<p>The issues paper looks at whether to exclude voluntary PIEs. (para 10-22)</p> <p>Noted</p>
CAANZ	<p>We believe the NZAuASB should reconsider the PIE definition, especially in relation to voluntary adopters of tier 1 reporting requirements (see our response to question 3).</p> <p>The PIE definition needs to balance the public interest with the consideration of which entities truly need to be held to PIE standards. We believe that the NZAuASB</p>	<p>Considered in the issues paper (from para 9)</p>

	<p>should consider the potential impact on the audit market and the flow on effects on audit quality and the maintenance of a strong financial market in New Zealand. Other jurisdictions such as the European Union, the United Kingdom and the United States are held up as examples that five year partner rotation is manageable. However there are significant differences in the population, the geographic isolation, and in the size of the entities being regulated in those markets compared to New Zealand. Therefore comparisons in relation to the manageability and impacts of the rotation process are not appropriate as the capacity issues in the market are not the same. In the US partner rotation applies only to SEC issuers and has not been extended to PIEs.</p> <p>US SEC issuers, due to the size of the market, are substantially larger than the majority of issuers in New Zealand's capital market. The US also provides exemptions to rotation requirements for smaller firms (less than 10 audit partners) with small numbers of clients who are registrants (less than five), so the regulator has acknowledged the potential for these requirements to adversely impact the smaller end of the market. Similar concessions have been made in Canada in relation to exempting smaller listed entities from certain independence requirements (including partner rotation) due to a view that requiring those entities to comply with the full rotation requirements would adversely impact those entities and smaller audit firms.</p> <p>In New Zealand, we have not seen extensive audit failure under the current rotation requirements. Further extending the cooling off period in New Zealand imposes a regulatory burden on audit firms and clients that is disproportionate to their size compared to entities subject to the same level of regulation in other jurisdictions.</p>	<p>This is noted in the issues paper.</p>
Deloitte	<p>No. We do not consider that the current New Zealand PIE definition is appropriate and the latest changes to the code highlight this again.</p>	

	<p>We agree with the current definition of 'public accountability' and requirements for Tier 1 in XRB A1. However, we consider that the PIE definition should be amended to include only those entities that are required to prepare Tier 1 financial statements and exclude those that opt in to preparing Tier 1 financial statements for the reasons outlined in our response to question 4.</p> <p>We consider that applying the revised international requirements to all PIEs (with the definition amended as outlined above) in New Zealand as regards financial statement audits is in the public interest.</p>	<p>Noted – explored in the issues paper. (refer para 21).</p>
OAG	<p>(a) The New Zealand PIE definition is appropriate for the original purpose for which it was created, being to define those entities that are subject to Tier 1 financial reporting requirements in New Zealand. However, the PIE definition is not appropriate for the proposed changes that respond to concerns about auditors' long association with an entity. Please refer to the comments in our covering letter.</p> <p>(b) One can argue that every enhancement made to a professional and ethical standard, or to an auditing standard, is in the public interest. However, the public interest benefit must, at a minimum, outweigh the costs associated with the enhancement.</p> <p>In this instance, as discussed in the covering letter, it is not apparent to us that the public interest benefit equals, or exceeds, the cost of applying the proposals to public interest entities. Furthermore, we do not consider that the NZAuASB has provided sufficient evidence to justify applying the proposed requirements to public interest entities.</p>	<p>Noted.</p> <p>The NZAuASB has discussed that all tier 1 entities have public accountability and therefore conceptually meet the intent of the IESBA Code.</p>

Q3: Do you consider that it is in the public interest to retain entities that voluntarily report using the tier 1 reporting requirements within the New Zealand PIE definition?

If not, do you consider that including such entities within the New Zealand PIE definition:

- (a) creates even further auditor supply pressures, that are contrary to, rather than in the public interest?**
- (b) has any other unintended consequences?**

It is important that we have evidence to justify any changes so please explain why, including where possible evidence to support the number of entities that are voluntary PIEs, and explanations as to why entities elect to do so, to support your view that it is not in the public interest to include these entities as PIEs.

	Number of responses	Respondents
Yes	1	Bruce
No	5	EY, KPMG, Deloitte CAANZ, OAG
Total	6	

8. Almost all submitters do not consider that “voluntary PIEs” should be caught by the New Zealand Public interest entity definition.
9. In the issues paper staff recommend that the PIE definition is amended to exclude “voluntary PIEs”.

Submitter	Comment
Bruce McNiven	Yes
E&Y	<p>No, we do not consider it is in the public interest to retain entities that voluntarily report using tier 1 reporting requirements within the New Zealand PIE definition. The reason clients choose to voluntarily report under Tier 1 has little to do with the public interest and has no link to whether it is appropriate to apply more stringent auditor long association provisions (or other provisions related to being a PIE). Some of these voluntary Tier 1 entities are small and adopt Tier 1 for ease of reporting to parent entities. We are not aware of a justifying rationale for capturing entities which voluntarily choose to adopt Tier 1 financial reporting as PIES and therefore requiring compliance with the long association provisions related to PIEs.</p> <p>While we do not think there are a large number of voluntary Tier 1 reporters, the PIE requirements are encouraging these entities to reduce their disclosure (which may otherwise be of interest to users) purely to enable them to assert compliance with Tier 2 and therefore avoid the PIE definition.</p> <p>In our view, excluding “voluntary PIEs” from the New Zealand PIE definition is consistent with IESBA’s PIE definition and application guidance. These entities have not been caught under the mandatory Tier 1 definition and therefore do not have a large number nor a wide range of stakeholders, do not hold assets in a fiduciary capacity and are not considered to be large. In our view, it was not appropriate to include these voluntary PIEs in the definition in the first instance.</p>

KPMG	<p>As discussed above we do not believe this is appropriate.</p> <p>(a) We believe this is the case.</p> <p>(b) We note a number of entities which we audit who previously voluntarily applied the tier 1 accounting framework have been electing to adopt RDR reporting. This is mainly driven by the more stringent independence rules of PIEs. Our expectation is the NZAuASB would be actively trying to encourage New Zealand entities to adopt the highest level of disclosure, something which is being discouraged by the PIE definition.</p> <p>We note that a large number of entities have previously voluntarily applied the tier 1 accounting framework for a variety of reasons, the most common being:</p> <ul style="list-style-type: none"> - Compliance with an incorporation/formation document; - Group reporting required Tier 1; - The entity elected to adopt tier 1 from the outset as they expect to eventually be in a position where mandatory adoption will be required and do not wish to transition; or - To allow greater comparison with both national and international competitors.
CAANZ	<p>(a) We believe that the supply pressure created by the extension of the cooling off period will only be exacerbated in entities who voluntarily adopt tier 1 reporting requirements. This is not in the public interest.</p> <p>(b) Entities who are voluntarily adopting tier 1 reporting requirements do not have the same characteristics as other PIEs and therefore the impact of their activities on the public interest is decreased. It is unnecessary for them to be subject to these additional requirements merely because they have voluntarily chosen to hold themselves to a high standard of financial reporting. In fact, it may have the unintended consequence of discouraging entities from choosing to make this election. This in turn has implications for financial reporting quality in New Zealand.</p>
Deloitte	<p>No. We do not consider that is in the public interest to retain entities that voluntarily report using the Tier 1 reporting requirements within the New Zealand PIE definition.</p> <p>The distinction between PIEs and non PIEs is very important to ensure that auditors focus particularly on the independence requirements for PIEs because of the importance that PIEs have to the economy and to the public interest. Adding in entities that do not have public accountability in truth but who have voluntarily decided to prepare full Tier 1 financial statements is an unnecessary distraction from this focus and audit quality in general.</p> <p>As is pointed out in the exposure draft, there is a concern regarding auditor supply pressures anyway. While this is less likely to affect the large firms in the main centres, it will very likely affect the smaller firms and offices. Regardless of firm size, the current definition imposes an additional cost on all firms having to identify and monitor another group of entities to ensure that the extra requirements of the code are met. It may also mean that additional support is required from outside the practice office which would normally serve the entity</p>

	<p>which will potentially add to the cost. This will particularly be the case where specialist expertise is required for a particular industry. It also increases the likelihood of inadvertent non-compliance because these entities do not have the normal public accountability characteristics that make them identifiable as PIEs.</p> <p>As noted above in our response to question 2, we consider that the definition should be amended to include those entities that are required to prepare Tier 1 financial statements and exclude those that opt in to preparing Tier 1 financial statements. We agree with the current definition of public accountability and the Tier 1 requirements in XRB A1.</p> <p>We note that some entities in the process of becoming publically accountable are separately captured as PIEs through the requirements of XRB A1 paragraph 8 which includes entities in the process of issuing instruments to be traded in a public market, and we consider that this remains appropriate.</p> <p>Some reasons why entities choose to use Tier 1 to prepare their financial statements include where the entity is owned by a foreign company who is not familiar with the RDR regime and asks for full IFRS information to prepare its own financial statements, and where the person preparing the financial statements has chosen to prepare using full IFRS merely because they consider that that is a better set of financial statements. Neither of these reasons on their own, warrant the entity itself being treated as a PIE.</p> <p>We note that para 290.26 already encourages auditors to consider whether other entities should be treated as PIEs for reasons that are consistent with public accountability as outlined in XRB A1 and we consider that this is appropriate.</p>
OAG	<p>We do not agree that it is in the public interest for the proposed requirements to be applied to entities that voluntarily report using the Tier 1 financial reporting requirements. We do not consider that the NZAuASB has provided sufficient evidence to justify applying the proposed requirements to public interest entities. Consequently, the case for applying the proposed requirements to entities who voluntarily elect to apply the Tier 1 financial reporting requirements has not been justified.</p> <p>As discussed in our response to Question 2(b) above, the proposed requirements must satisfy the cost/benefit test.</p> <p>(a) In our opinion, applying the proposed requirements to entities that voluntarily report using the Tier 1 financial reporting requirements will create auditor supply pressures, over and above the auditor supply pressures that will be created in applying the proposed requirements to public interest entities.</p> <p>(b) In most circumstances, the new requirements will necessarily result in additional audit costs. Rather than incur additional audit costs, some entities that voluntarily report using the Tier 1 financial reporting requirements may decide to adopt a lesser form of reporting that they are permitted to apply. The consequences of this decision</p>

	<p>will be to deprive users of the financial statements of (potentially) useful information. In addition, the proposed requirements may deter some entities from voluntarily adopting Tier 1 reporting.</p> <p>The consequence of these decisions is lesser reporting, which is unsatisfactory from a public interest perspective.</p> <p>In our view, the NZAuASB needs to reflect on the deterrent effect of the proposed changes on voluntary improvements in financial reporting. It makes no sense that an entity is "penalised" for voluntarily adopting better reporting.</p>
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Q4: For dual listed entities (listed on the NZX and ASX), do you consider there to be unintended consequences of having different rotation requirements for the engagement partner for listed entities in New Zealand and Australia? If so, please explain.

	Number of responses	Respondents
Yes (i.e. should align)	4	Bruce, EY, CAANZ KPMG (but no unintended consequences identified)
No (i.e. comfortable that there is a difference)	2	Deloitte, OAG
	1	NZX – notes intent to consult on this matter
Total	7	

10. 4 submitters expressed a preference that the rotation requirements should align across the Tasman, although no specific unintended consequences were identified by any submitters if a difference remains.
11. There remains a need to continue to discuss the implications with the NZX as they consider whether to revise the Listing Rules and to further clarify the implications for Dual Listed entities with Exempt Status. We will need to do this in conjunction with the NZX.

Submitter	Comment	Staff Comment
Bruce McNiven	PES1 should be aligned with listing requirements where entities are listed on the NZX and ASX to avoid confusion. XRB should work with NZX and ASX to get standardisation.	Noted. Discussion with NZX will be on going.

E&Y	Given the close economic ties between New Zealand and Australian entities, it is highly beneficial for the audit standards to be as closely aligned as possible. We do not believe it to be justifiable to require New Zealand entities to apply stricter rotation requirements than their Australian counterparts. In our opinion, every effort should be made to ensure that the New Zealand rotational requirements for listed entities align with those of Australia. As currently proposed, this is not achieved.	Noted. While this is desirable there is no New Zealand legislation that makes this so. Discussion with NZX will be on going.
KPMG	We are not aware of any unintended consequences. However it does seem unusual that a reduced cooling off period is acceptable in a developed economy (such as Australia), yet not able to be achieved in NZ.	Noted.
CAANZ	Managing the rotation process is resource intensive and complex for firms. Having different requirements in the two jurisdictions will only make this more difficult for firms to manage. They would have to satisfy whichever is the stricter requirement which may place them at a disadvantage in managing relationships with dual listed entities versus those who are only listed in New Zealand or Australia.	Noted.
Deloitte	We are not aware of any unintended consequences of these proposals, however we consider it would be appropriate to allow a longer transition period as outlined in our response to question 6.	Noted. The issue of whether to defer adoption is considered in the issues paper (refer para 46)
OAG	The Auditor-General is the auditor of a small number of dual listed public entities. Because the proposed requirements for New Zealand listed entities will be more stringent than those entities listed in Australia, there are unlikely to be any unintended consequences from an Auditor-General's perspective.	Noted.
NZX	As noted above, a number of issuers are listed on both the NZX and ASX exchanges. In Australia, the Corporations Act 2001 establishes both a "time on" and a "cooling off" period that differs from international requirements for listed entities. There are 30 companies that are listed on both the NZX Main Board and the ASX Main Board, who have the status of 'Foreign Exempt' companies on the ASX. The impact of a Foreign Exempt listing status is that these companies do not need to meet the majority	Noted. The need for further discussion with the NZX is noted in the issues paper.

	<p>of ASX's requirements. As a result, these companies will need to meet the NZX requirements in relation to auditor rotation but we need to better understand how this interacts with any auditor rotation requirements under the Corporations Act 2001. The total number of dual listed issuers is approximately 35 (both Foreign Exempt and ASX Standard Listed issuers). Alignment between regimes in New Zealand and Australia will remain a concern for dual listed companies.</p> <p>There will be a difference between the maximum number of years an auditor has "time on" under PES1 (7 years) and NZX's current rules (5 years). This means that any public interest entity who is listed must meet the lower NZX requirement.</p> <p>NZX Main Board Listing Rule Review In August 2016, NZX sought views on whether auditor rotation timeframes should be updated from five to seven years "time-on". Many who responded were broadly comfortable with the current five year audit partner rotation requirement but noted that extending the timeframe to seven years would align with the underlying ethical standards by the XRB PES1. In addition, a number of submitters highlighted that NZX should not seek to impose requirements in this area given the separate legal requirements.</p> <p>NZX intends to commence a review of its Listing Rules this year and will raise this matter as part of the review. We plan to release an initial consultation paper in September 2017 and it will be helpful for NZX to consider the feedback received to XRB's current review as part of our review process. NZX's rules are currently silent about a "cooling off" period in respect of auditor appointments. While we did not raise the question of introducing a "cooling off" period at that time, this is something we can consult on with stakeholders in the context of the NZX Main Board Listing Rule review. We will consider the impact of transitional relief for issuers as part of the consultation process.</p>	
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Q5: Do you agree with the New Zealand proposal to align the auditor rotation requirements for audits of financial statements and other recurring assurance engagements for public interest entities? If not, why not?

	Number of responses	Respondents
Yes	1	OAG
No	5	Bruce, EY, KPMG, CAANZ, Deloitte
Total	6	

12. There is a preference by the majority of submitters to align with the international requirements i.e., not adopt the PIE requirements for other assurance engagements. However there is not disagreement that conceptually the same independence rules should apply to all assurance engagements. 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.
13. The NZAuASB has previously agreed to align section 291 that applies to other assurance engagements with the requirements for audit and review engagements. The proposal in the ED was to amend the 7 year on, 2 year cooling off period to extend the cooling off period to 5 years, consistent with changes made to the requirement for audit and review engagements.
14. The feedback received does not disagree that conceptually the same independence requirements should apply, however there is a strong preference to align the auditor rotation requirement for other assurance engagements with the international requirements.
15. We consider that these comments go beyond the scope of the long association provisions. The NZAuASB has previously and on numerous occasions agreed to equate the audit and review requirements and the other assurance engagements (for example, on the PIE requirements and the non-compliance with laws and regulations project (NOCLAR)).
16. An alternative option is to exclude the additional PIE long association requirements from section 291, however this is contrary to the view that the same independence requirements should apply to all assurance engagements.

Submitter	Comment
Bruce McNiven	No, leave the current time on and cooling off period as it is. The NZ market is too small to accommodate the large cooling off period. There has been no issue with the current regulation, and I see no need to change it

E&Y	<p>In our view, alignment of rotation requirements will have little practical impact as in many cases the partner undertaking the other recurring assurance engagement for PIEs is likely the partner undertaking the audit and will already be covered by the rotation requirements. While we do not disagree with the NZAuASB's aligning of section 291 with section 290, we are not clear what the NZAuASB's rationale is for amending this element of the standard for New Zealand. It is not clear that there is a specific difference in the New Zealand environment that would justify a change from the international standard. As a standard taker, in our view, the international standards should be amended in New Zealand where there is a clear difference in our market that would require amendment.</p>
KPMG	<p>Whilst we understand the underlying rationale to reduce the familiarity threat, and agree with the concept, there could still be challenges due to the size of the NZ economy. Recurring assurance engagements provided by the audit partner would not be impacted (as the audit partner would be rotating in any case), however recurring assurance engagements may be delivered by a non-audit partner who is a specialist in a field (such as IT). This could create a significant issue if there are not enough specialists to deliver that assurance work.</p>
CAANZ	<p>We support consistency with the international requirements and this is not consistent. We do not believe there is a compelling reason to deviate from the international requirements in this regard. These engagements do not have the same potential impact on the public interest as a financial statement audit and the IESBA Code provides sufficient guidance on safeguarding independence.</p>
Deloitte	<p>We do not agree with the New Zealand proposal to expand the auditor rotation requirements to other assurance engagements and note that in some cases it will create auditor supply pressures. We consider that the current stand down period of two years would be more appropriate.</p> <p>In particular, we disagree with the assumption made in paragraph 34 of the paper that in most circumstances where assurance is provided over prospective or non-financial information, the client is already an audit or review client. There are a number of specialised other assurance engagement types that are not always performed by the statutory auditor or reviewer. For example, we perform assurance engagements in respect of anti-money laundering requirements, sustainability reporting, as independent verifiers in respect of the Climate Change (Unique Emissions Factors) Regulations 2009, and some control assurance engagements where we are not the statutory auditor of the entity.</p> <p>Where these engagements involve specialist knowledge, or involve professionals that are subject to additional registration requirements, the introduction of longer cooling off periods will reduce the pool of specialists available to complete the work. It may also disadvantage the accounting profession where accountants compete with non-accountants in the delivery of these assurance engagements.</p>

	<p>For example, 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)).</p> <p>Should you decide to progress with these New Zealand amendments, it is also not clear 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.</p>
OAG	<p>We do not agree that the proposed auditor rotation requirements should be applied to public interest entities, for the reasons included in the covering letter.</p> <p>However, it does make sense to apply any enhanced requirements uniformly across all recurring assurance engagements (including audits of financial statements) carried out within an entity.</p>

Q6: The transitional provisions provide for an alternative cooling off period permitted under legislation or regulation that will have effect for audits of financial statements for periods beginning prior to 15 December 2023. The NZAuASB requests feedback on the impact of this transitional provision in the New Zealand context.

Submitter	Comment	Staff comment
Bruce McNiven	Do not change what is currently in place, so there is no need for transitional provisions.	Noted
E&Y	<p>To ensure alignment with the rotation requirements in Australia which we understand will be applying the 3 year rotation until 2023, we strongly believe it is essential for this transitional requirement to be adopted in New Zealand. This transitional amendment also allows much needed time for audit firms to prepare for the changes to rotation.</p> <p>We are aware of the NZAuASB's current position that to apply the transitional provision in New Zealand would be contrary to its stated strategy of not</p>	<p>Noted</p> <p>The deferral of the extended cooling off period is considered in issues paper. (refer para 46)</p>

	<p>adopting a lesser standard than the international version. In our view, this is a very literal interpretation that is not in the best interests of the public in New Zealand.</p> <p>In our view, it is very possible to make an argument that applying the transitional provisions to all PIEs is not adopting a lesser standard than the international version. In our view, the NZAuASB should argue that because other countries are making use of the transitional provisions, our standard would not be weaker for applying the provision to all PIEs because the country we have closest economic ties to is applying the provisions to the same sorts of entities. In fact, if we do not apply the transition provisions we will be out of step with Australia and other countries.</p> <p>It is a very literal interpretation of transitional provisions to argue that we cannot apply the transitional provisions in New Zealand purely on the basis that Australian rotation rules are in corporations' law and ours are not. To allow much needed time for the new rules to be applied is not, in our view, lessening the standard. During the transition period, similar entities in NZ and Australia (and possibly other countries) would be subject to the same rotation rules. In our view, in the public interest, the NZAuASB should take a pragmatic approach to the application of the transitional provisions.</p> <p>In our opinion, the NZAuASB should apply the transitional provision to all PIEs in New Zealand with the rationale that due to;</p> <ul style="list-style-type: none"> • the very broad nature of our PIE definition, • the unique business environment (with a small number of qualified auditors auditing complex specialised industries and remote locations); and, • the importance of aligning our rotation rules with those of Australia, <p>it is in the public interest to allow additional time for the profession to adapt to the new rotation rules so as not to reduce audit quality.</p>	<p>We consider that deferring the mandatory adoption of the revisions may be considered to be IESBA minus in the interim period.</p>
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KPMG	<p>As discussed in the webinar on the 22nd June this requirement is not applicable to the New Zealand situation without additional legislation or regulation. We believe this would only be valuable if the NZAuASB elected to change the definition of a PIE and did not have time to implement the changes before the new rotation requirements came into effect. In which case it would be useful to delay the implementation of the rotation requirements under the transitional provisions until the new PIE definition is effective.</p>	Noted
CAANZ	<p>We understand that extant New Zealand legislation does not contain the kind of alternative that would allow New Zealand to use the transitional provision. In Australia, Corporations Act entities will be able to use the transitional provision. This provides further complications for dual listed entities.</p> <p>In our submission to the Accountants Professional and Ethical Standards Board (APESB) in Australia, we encouraged the APESB to continue to advocate that the transitional provision be removed and for them to monitor audit quality impacts over this time. That is so a jurisdictional overlay remains available to Australian entities post 2023, unless there is compelling evidence that the increased cooling off period has improved audit quality in the intervening period. We also encouraged the board to work with the Federal Government to have measures in place to align the Corporations Act rotation requirements with the APESB Code.</p> <p>We understand the New Zealand Stock Exchange is currently looking at ways to align its requirements, including auditor rotation, with Australia. We encourage the NZAuASB to support Trans-Tasman alignment to reduce the burden on dual listed entities and to continue to pursue trans-Tasman harmonisation. Any harmonisation process would need to consider both the current Australian requirements and future changes that may occur post 2023. We also encourage the NZAuASB to consider ways to monitor</p>	<p>Noted. We recommend continuing discussions with the NZX.</p>

	the impact on the market and audit quality in New Zealand so that evidence is available to make decisions and pursue change when these provisions are next reviewed by the IESBA.	
Deloitte	<p>Given New Zealand's small market and large number of PIEs, we consider that it is appropriate for an alternative cooling off period to be permitted over the transitional period to 15 December 2023 given the specific allowance in the international standard.</p> <p>It is already difficult to manage conflicts of interest, needs for industry expertise, and client demands for locally based or experienced partners when approaching a rotation period. The new cooling off requirements will add an additional level of complexity to rotation, particularly for smaller offices or firms, and a longer transition period will enable better staggering of partner and EQCR roles so as to not impact on audit quality.</p> <p>While we disagree with the expansion of the cooling off period requirements to other assurance engagements, if you proceed with this proposal, we suggest that the existing shorter cooling off period is permitted prior to 15 December 2023 to enable time for additional specialists to be recruited or trained, where possible.</p>	<p>Noted. The options for deferring mandatory implementation are considered in the issues paper. (refer para 46)</p> <p>Agreed – included in recommendation in the issues paper. (refer para 56)</p>
OAG	We have not fully engaged with the transitional provisions. Nonetheless, auditors should be permitted a reasonable lead time to transition to the new requirements because of the resourcing implications of the proposals.	Noted

Q6: Do you consider any further compelling reason amendments are needed? If so, what amendments should be made and why?

Submitter	Comment
Bruce McNiven	No changes are needed to what we currently have in place.
E&Y	We consider no further reason for amendment.
KPMG	We have no further comments.
CAANZ	No
Deloitte	No

OAG	Please refer to the comments in the covering letter.
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Q7: Do you have any other comments on ED NZAuASB 2017-1?

Submitter	Comment
Bruce McNiven	Please don't change the cooling off period, the NZ audit market is far too small to accommodate the change.
E&Y	We have no further comment on this exposure draft.
Laura Addinall	<p>Para 290.168 might have eluded to my query...nevertheless I have the following comment/concern: I could not find reference in the ED regarding assurance engagements for PBEs (especially Tier 3 and 4; and lower spectrum Tier 2s). For these entities there are a limited number of "one-man" audit practices (that charge at a rate these charities can afford) to facilitate the auditor rotation. A proposal to mitigate the risk associated with "Long Association of Personnel" for the above-mentioned clients, would be to require Peer Review after the 7 cumulative years of engagement, in lieu of the "cooling off" period.</p> <p>[Staff comment – we have responded to clarify that only the general provisions will apply]</p>
KPMG	We have no further comments.
CAANZ	No
Deloitte	No.
OAG	<p><i>Rotation of the External Quality Control Reviewer</i></p> <p>There is a particular issue around the rotation of the engagement quality control reviewer (EQCR) that has not been addressed in the proposal, and that we believe requires consideration. The independence of the EQCR from the operational aspects of the audit is fundamental to the EQCR role. Therefore, it follows that the EQCR can move directly from the EQCR role to another key audit partner (KAP) role without a cooling-off period, as long as the move occurs within a seven-year time-on period. However, the effectiveness of the EQCR role would be significantly diminished if the individual is able to move directly from an operational role to an EQCR role, within a seven-year time-on period, without a cooling-off period. This is because the individual performing the EQCR would be monitoring their own work (carried out in a prior period), and this would effectively negate the benefit of the EQCR.</p> <p>[Staff comment: The IAASB were looking at additional rotation rules for the EQCR but these become too complex to apply in conjunction with the IESBA requirements. We understand that the IAASB agreed</p>

	not to address this in ISQC 1 at this stage but to liaise further with the IESBA].
OAG	<p><i>Restrictions on Activities During the Cooling-off Period</i></p> <p>Paragraphs 290.164 and NZ291.141.11 place restrictions on what an individual can do during the cooling-off period.</p> <p>We are concerned that these paragraphs permit a degree of contact with the entity, and that this contact will effectively negate the purpose of the cooling-off period – being to remove the threats to independence that may arise when an individual is involved in an audit or review engagement over a long period of time. The proposed requirements (at paragraph 290.148) specifically state that a self-interest threat may be created through an interest in maintaining a close personal relationship with a member of senior management or those charged with governance.</p> <p>Such contacts can be maintained under the proposed standard in the following ways:</p> <ul style="list-style-type: none"> • Paragraph 290.164(c) permits on-going contact as long as the individual is <i>not responsible</i> for <i>leading</i> or <i>coordinating</i> the firm’s professional services to the audit or review client or <i>overseeing</i> the firm’s relationship with the audit or review client [emphasis added]. <p>By implication, paragraph 290.164(c) permits a current key audit partner to engage in such activities, which is questionable.</p> <ul style="list-style-type: none"> • Paragraph 290.164(d)(i) would permit an individual to interact with senior management or those charged with governance provided the interaction was not <i>significant</i> or <i>frequent</i> [emphasis added]. <p>In summary, the cooling-off restrictions permit on-going interaction during the cooling-off period. The opportunity given by the proposed standard that permits interactions between an individual and the entity during a cooling-off period effectively negates the whole purpose of the auditor rotation proposals.</p> <p>[The purpose of the revisions was to restrict the activities further, i.e. that off means off. The NZAuASB did not raise concerns with the IESBA in the exposure period and we do not consider there is a compelling reason to amend this in New Zealand].</p>

Issues paper – long association

1. This paper considers the key matters identified by submitters for consideration by the NZAuASB prior to finalising long association amendments to PES 1 (Revised) including:
 - a. Whether or not to adopt the international requirements in New Zealand;
 - b. Whether to amend the definition of a Public Interest Entity (PIE) in New Zealand;
 - c. Alignment with Australia;
 - d. Equating the long association requirements for all assurance engagements.

Adopt the international requirements

2. The majority of submitters generally agree with the proposal to adopt the international requirements. (5 out of 8 that responded to Q1), despite a possible lack of evidence to demonstrate that extending the cooling off period will improve independence and acknowledging the difficulties in doing so in an economy the size of New Zealand.
3. Concerns raised included:
 - A contraction in the audit market and a monopoly in the audit space of FMC entities;
 - Negative impact on audit quality, with a potential increase in the number of engagements where the engagement partner or engagement quality control review (EQCR) are located in a different geographic location, which may reduce the level of direct involvement with the client (CAANZ);
 - The changes are more likely to hinder audit quality than help (KPMG);
 - By default, an audit partner with less industry experience will be required to rotate onto the client to achieve the long association rules (KPMG);
 - Changes would affect regional audit practices and may continually reduce the number of licensed auditors in New Zealand.
4. CAANZ urges the NZAuASB to continue to raise concerns at the international level.

5. The NZX agrees it is important for New Zealand's auditor rotation requirements to be of a high standard and, to the extent practicable, to align with international codes.
6. Those that do not agree, and would prefer not to adopt the international requirements, are from the smaller firms. The OAG's view is that they do not agree with the proposal to adopt the revised requirements as proposed, with reference to the New Zealand PIE definition.
7. We recommend that the NZAuASB adopt the revised International Ethics Standards Board for Accountants (IESBA) requirements in New Zealand. Some remaining issues to consider before approving the amendments to PES 1 (Revised), that are explored further below, include whether to:
 - a. amend the PIE definition;
 - b. expand the revisions to all other assurance engagements; and
 - c. extend the effective date of the revisions in New Zealand.

Such measures may assist to mitigate any negative impact on audit quality.

8. **Does the NZAuASB agree that New Zealand should adopt the extended cooling off period or do you consider that adoption of the international requirements will hinder audit quality in the New Zealand context?**

PIE definition

9. Almost all those that responded did not consider that the New Zealand PIE definition remains appropriate. This included the submissions received from the big 4, the OAG and CAANZ. They gave various reasons and identified three different options for the NZAuASB to consider:
 - a. Excluding "voluntary PIEs", those entities that elect, but are not required, to apply the tier 1 financial reporting standards; (All submitters considered this necessary)
 - b. Limiting the PIE definition to FMC reporting entities considered to have a higher level of public accountability(HLPA); (this was identified as an option by the OAG).
 - c. Consideration of a benchmark of minimum capitalisation threshold of the entity where shares are actively traded. (option identified by Cameron Town, Silks)

Voluntary PIEs

10. The NZAuASB had requested feedback as to whether stakeholders considered that "voluntary PIEs" should remain within the definition of a PIE.

11. The NZAuASB sought feedback as to why an entity would voluntarily report using the tier 1 financial reporting standards and the number of entities captured.
12. The following reasons for opting up were identified:
- a. Ease of reporting to parent entities; (EY)
 - b. Compliance with an incorporation/formation document; (KPMG)
 - c. Group reporting required tier 1; (KPMG)
 - d. The entity elects to adopt tier 1 from the outset as they expect to eventually be in a position where mandatory adoption will be required and do not wish to transition; (KPMG)
 - e. To allow greater comparison with both national and international competitors; (KPMG).
 - f. An entity is owned by a foreign company who is not familiar with the RDR regime and so asks for full IFRS information; (Deloitte)
 - g. The preparer chooses to prepare using full IFRS because they consider it to be a better set of financial statements. (Deloitte)
13. The following information was identified with respect to the number of voluntary PIEs:
- a. We do not think there is a large number of voluntary Tier 1 reporters;
 - b. One firm has separately identified that they have 26 clients that chose to prepare Tier 1 financial statements (driven by group reporting requirements or internal templates).
14. Five out of the six respondents who answered question 3 did not believe that "voluntary PIEs" should be included within the PIE definition in New Zealand.
15. An unintended consequence of including voluntary Tier 1 reporters as PIEs identified by submitters was that a number of entities who previously applied the tier 1 accounting framework have been electing to adopt RDR reporting. (i.e. the independence rules for the auditor have impacted on the accounting framework selected by the preparer). This concern was noted by KPMG, CAANZ and the OAG. "It makes no sense that an entity is "penalised" for voluntarily adopting better reporting."
16. Another reason given as to why "voluntary" PIEs should be excluded is that such entities do not have the same characteristics as "mandatory" PIEs (do not have public accountability in truth) and therefore the impact of their activities on the public interest is decreased.

17. We agree with the comments submitted and recommend that “voluntary PIEs” should be excluded from the PIE definition. We consider that including such entities is broadening the definition of a PIE beyond what the IESBA considered necessary to meet the spirit of the international code. There will be entities that apply full IFRS reporting requirements in other jurisdictions that are not classified as PIEs. This results in a situation where New Zealand is more stringent than the international requirements where we do not believe that the compelling reason test has been met.
18. The impact of excluding voluntary PIEs from the definition is not limited to the long association requirements. The more onerous PIE requirements are more restrictive in prohibiting many non-assurance services
19. **Does the NZAuASB agree that entities that are legally entitled to opt to report using a lower tier, but elect to use tier 1 financial reporting standards should be excluded from the New Zealand PIE definition?**
20. We recommend amending the PIE definition as follows:
- “Any entity that meets the Tier 1 criteria in accordance with XRB A1¹ and 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.~~”
21. **If yes, does the NZAuASB consider there is a need to re-expose this change? (Given that the majority of respondents were supportive of excluding these entities and that re-exposure is unlikely to provide any further information?)**
22. We note that if this change is made, both Deloitte and KPMG would be supportive of the New Zealand PIE definition, although concern still remains regarding the practical difficulties of implementation and the potential negative impact on audit quality.

FMC reporting entities considered to have a higher level of public accountability

23. The OAG suggested that the PIE definition should be restricted to FMC reporting entities considered to have a higher level of public accountability. This would align with the scope of the requirement to report key audit matters.
24. Their concern is that the tier system has been developed for reporting purposes which have a different purpose than for the determination of the more stringent independence requirements (i.e., the current definition is not fit for purpose).
25. The impact of this suggestion is that tier 1 PBEs, including not-for-profit entities (estimated at approximately 70 entities) and public sector entities that are not FMC reporting entities (estimated at approximately 262 large public sector entities with expenses greater than \$30 million), would be excluded from the PIE definition.

¹ XRB A1 *Application of the Accounting Standards Framework*.

26. The independence standard issued by the Office of the Auditor General has established a more stringent rotation cycle than the extant PES 1 (Revised) requiring a 6 year time on and 3 year time off rotation. It will be up to the Office of the Auditor General as to whether the OAG's standards are revised to align with the revised international requirements.
27. The NZAuASB has deliberated on each sector. The NZAuASB discussed that "mandatory" tier 1 entities are captured by the IESBA guidance on PIEs, which goes further than listed entities.
28. Another key factor discussed was the need for less complexity. For example, if the PIE definition only covered FMC entities with HLPAs, then there would be two sets of independence requirements that apply in the public sector – depending on whether the entity was a FMC entity with HLPAs or not.
29. In addition, limiting the definition of a PIE in this manner, would exclude large not-for-profit (NFP) entities. There is no other regulator of the auditor in that sector, and excluding large NFPs from the PIE definition would result in only the general provisions applying (i.e., in the public sector the OAG may require some mandatory rotation requirements for more complex public sector audits, i.e. there is more than the general provisions that apply in the public sector but not so for the not-for-profit sector).
30. The number of large NFPs that have been identified so far as being tier 1 entities is approximately 75. This is a relatively smaller number, and is not a major contributor to any supply concerns. However, if these entities are excluded from the PIE definition, there is no other "regulator" that would require more stringent requirements.
31. On balance, we do not recommend limiting the PIE definition to FMC reporting entities with HLPAs, most significantly because this would exclude large NFPs. While the public sector already has rotation "rules" that apply to the public sector, there would be no such requirements in the NFP sector. In addition, if the PIE definition were limited to FMC reporting entities with HLPAs this would result in multiple sets of requirements applying in the public sector (7 and 5 for public sector FMC reporting entities considered to have a higher level of public accountability, 6 and 3 for those other public sector entities that fall within the OAG's requirements and the general provisions for the rest). The NZAuASB has previously discussed a preference for simplicity.
- 32. Does the board agree to retain the PIE definition to include all mandatory tier 1 entities, not only those FMC entities with HLPAs?**

Minimum capitalisation threshold of the entity

33. An alternative suggestion was to consider "a benchmark or minimum capitalisation threshold of the entity or listed on the stock exchange where shares are actively

traded on a regularly basis then the benefits may warrant the proposed further cooling off period.”

34. The example provided was for FMC entities where the investment is passive in nature e.g., forestry, and what benefit would there be for users of the financial statements in extending the cooling off period, where the forestry is in the growth phase of the investment and where very few transactions occur on an annual basis.
35. The NZAuASB has previously discussed the fact that smaller FMC reporting entities with HLPa will be caught within the net. The example of a forest (that is passive in nature) is a good example of where there may be justification for exclusion from the longer cooling off period, and the 7 year time on restriction.
36. The NZAuASB discussed that the benefit of simplicity and alignment with the tier 1 definition has the advantage of making these complex rules easier to manage in practice.
37. The NZAuASB has previously discussed the option of exploring whether exemptions could be provided by the FMA, to address concerns that smaller FMC reporting entities with HLPa may be caught having unintended consequences. We continue to recommend that this is something to explore in more detail with them, as highlighted in previous Board discussions.
38. CAANZ’s submission highlights the need for exemptions, indicating that exemptions are provided in jurisdictions like the US and Canada. “The US also provides exemptions to rotation requirements for smaller firms (less than 10 audit partners) with small numbers of clients who are registrants (less than 5), so the regulator has acknowledged the potential for these requirements to adversely impact the smaller end of the market. Similar concessions have been made in Canada in relation to exempting smaller listed entities from certain independence requirements (including partner rotation) due to a view that requiring those entities to comply ...would adversely impact that entities and smaller audit firms.”
39. We do not recommend adjusting the PIE definition by establishing a minimum capitalisation threshold. However, we do consider that further discussion with the FMA with respect to offering exemptions from the rotation requirements would merit further attention.
40. The revised IESBA requirements include the following:

“When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit 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 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.”

41. The way in which this paragraph is worded allows the FMA to extend the time-on period rather than reduce the cooling off period.
42. An alternative is for the FMA to change the designation from an FMC entity considered to have a higher level of public accountability. This would remove them from the PIE definition but also change the financial reporting requirements.
43. **Does the NZAuASB agree to further explore exemptions with the FMA?**

Alignment with Australia

44. 4 submitters expressed a preference that the rotation requirements should align across the Tasman, although no specific unintended consequences were identified by any submitters if a difference remains.
45. The NZAuASB similarly would prefer to align the requirements and has raised the matter with the NZX. Options previously discussed by the Board:

- a. Include something in PES 1 (Revised) (as PES 1 (Revised) is included as “regulation”) to mandate a cooling off period of less than 5 years- this option was previously rejected in that it is delaying the inevitable and would be practically difficult to include within PES 1 (Revised) and still adopt the revised IESBA requirements that establish the cooling off period at 5 years;

[The comment from EY was, “We are aware of the NZAuASB’s current position that to apply the transitional provision in New Zealand would be contrary to its stated strategy of not adopting a lesser standard than the international version. In our view, this is a very literal interpretation that is not in the best interests of the public in New Zealand.”]

We have no justification or compelling reason for including any other rule or number of years than that prescribed by the IESBA.

- b. The NZX may mandate a cooling off period – the NZX notes that this is something they can consult on in the context of the NZX Main Board review. (However, this would only apply to NZX listed entities resulting in a difference to other FMC reporting entities with HLPAs).
46. An alternative option is to defer the mandatory adoption of the revised requirements (i.e., make the effective date of the changes from a date after 2018, for example, 2023 in New Zealand). This would result in the requirements of PES 1 (Revised) being less than the international requirements for 5 years. Deferring the mandatory application date was identified by Deloitte and EY, especially in light of the retrospective application of the revisions (for the engagement partner that is completing the 7 year time off period at December 2017, the new rules will apply).

47. When at the APESB meeting, we noted that the APESB has deferred the effective date of NOCLAR in Australia, and that there are other jurisdictions that may adopt the revised international requirements at a later stage. This option has not previously been explored, as the mandate given to the NZAuASB is to align with the international requirements by the effective date of the international requirements.
48. We recommend continuing to work with the NZX and to monitor their review of the listing rules.
49. The NZX submission noted that there are 30 companies that are listed on both the NZX and ASX Main boards, with a "Foreign Exempt" Status. The NZX notes the need to better understand how the requirement to meet the NZX requirements in relation to auditor rotation interact with any auditor rotation requirements under the Corporations Act 2001. This is a matter that we will need to work together on to better understand the interaction. We recommend additional clarification will be needed but that this may be best done by way of a FAQ.
50. We do not recommend any amendments to what was proposed in the exposure draft.
- 51. Does the Board agree that while it is desirable to align the requirements across the Tasman, the action should be to continue to work with the NZX as they look to revise the Listing Rules, rather than to make any changes to what was proposed in the exposure draft.**

Equating the long association requirements for all assurance engagements

52. 5 of the 6 respondents did not agree with the proposal to extend the cooling off period to 5 years for other assurance engagements that involve PIEs. The majority of submitters prefer to align with the international requirements. However, submitters did agree that conceptually the same independence rules should apply to all assurance engagements. 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.
53. The NZAuASB has not previously identified any unintended consequences of making this amendment, in that in many instances, the client would already be an audit client (for example, a compliance engagement or a controls engagement). However, there may be examples where this differs – for example if a separate assurance firm assures the sustainability report to the audit firm that opines on the financial statements). The following two comments raise potential unintended consequences:
- "Recurring assurance engagements provided by the audit partner would not be impacted (as the audit partner would be rotating in any case), however recurring assurance engagements may be delivered by a non-audit partner who is a specialist

in a field (such as IT). This could create a significant issue if there are not enough specialists to deliver that assurance work.” (KPMG)

“There are a number of specialised other assurance engagement types that are not always performed by the statutory auditor or reviewer. For example, we perform assurance engagements in respect of anti-money laundering requirements, sustainability reporting, as independent verifiers in respect of the Climate Change (Unique Emissions Factors) Regulations 2009, and some control assurance engagements where we are not the statutory auditor of the entity.

Where these engagements involve specialist knowledge, or involve professionals that are subject to additional registration requirements, the introduction of longer cooling off periods will reduce the pool of specialists available to complete the work. It may also disadvantage the accounting profession where accountants compete with non-accountants in the delivery of these assurance engagements.” (Deloitte)

54. The NZAuASB has previously deliberated on and agreed (on numerous occasions) to align the independence requirements for audits, reviews and other assurance engagements. These changes are pervasive through extant section 291, and are not limited to the long association requirements (for example, other PIE requirements and the NOCLAR framework).

55. We continue to recommend that the extant para NZ291.137.1-5 should be amended to be consistent with the changes made to section 290 by the IESBA (i.e., requiring a 7 year on and 5 year cooling off period). If not, PES 1 (Revised) will still differ from the IESBA Code, in that a 7 year on and 2 year off rotation cycle will be required for other assurance engagements by PES 1 (Revised). The compelling reason change made by the NZAuASB is that there should be no difference between the independence requirements for all assurance engagements.

56. Does the Board agree that the requirements for other assurance engagements should continue to align with the requirements for audits and reviews? If so, does the Board agree that NZ291.137.1-5 should be amended to extend the cooling off period to 5 years, to continue to align with the requirement for audit?

57. Deloitte also raised the possibility of deferring the mandatory adoption of the revisions to section 291 to 2023. This option has not been discussed by the Board, but is not considered IESBA minus. However, we consider that this is unlikely to have a large impact in practice. In addition, it is inconsistent with the idea that all independence requirements should be aligned.

58. Does the Board consider that the 5 year cooling off period should be delayed for other assurance engagements?

59. 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)).

60. Deloitte seeks 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.
61. We consider that this is a practical implementation issue that requires further guidance, and could be addressed via separate guidance. **We seek views from the Board as to how this applies?**

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 4.1
Meeting date: 6 September 2017
Subject: NZAuASB Strategic Action Plan
Date: 22 August 2017

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

To APPROVE:

- the NZAuASB Strategic Action Plan document for the five year period 1 July 2017 to 30 June 2022;
- the updated indicative timing schedules for the NZAuASB Strategic Actions for the 2017 to 2020 period; and
- the “annual cut” of the NZAuASB Strategic Action Implementation Plan for 2017/18, identifying the specific actions that will be undertaken in this year.

Background

NZAuASB Strategic Action Plan (SAP)

1. At its July meeting the NZAuASB considered the revised XRB organisation Strategic Plan 2017-2027, and agreed to advise the XRB Board that the revised plan is appropriate.
2. The Board also considered a document that showed the NZAuASB Strategic Action Plan, noting for which actions no change are required, and indicating the proposed new actions that reflect the proposed changes based on the discussions at the joint Board Strategy day that were of specific relevance to the NZAuASB, and that accounted for any relevant changes made to the XRB overarching strategic action plan.
3. We have now updated the NZAuASB Strategic Action Plan document for the five year period 1 July 2017 to 30 June 2022 for approval. A marked up copy is available at agenda item 4.2.
4. The NZAuASB’s planned strategic actions are summarised in the table below. The proposed changes are highlighted.
5. The only areas identified at the July meeting where changes to the NZAuASB’s actions are required are under Specific Strategy 1, Part B : *Address Critical Issues* and Strategy 4 : *Enhance Constituency Engagement*. The main changes are:

- Amending Action 1B.4: Developing a Standard on Agreed Upon Procedures to 'Adopting the revised International Standard'. This is because of the delay in obtaining the mandate to issue an AUP standard.
- Adding new Action 1 B.7: Developing an Engagement Standard/Guidance for smaller NFPs to better meet the needs of users, as informed by research completed in 2016-2017.
- Adding new Action 1 B.8: Develop Guidance on the use of the Compliance Engagement Standard.
- Incorporating Action 4.10 Facilitating the Enhancement of Audit quality with Action 4.9 Promoting Understanding of the factors that Enhance Audit Quality, to better align with the NZAuASB's mandate.

6. Subsequent to the July meeting we have identified the following two actions that we recommend also be included in the SAP:

- NZAuASB Action 1B.9 : Develop guidance or amend NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* for the new auditor reporting requirements.
- NZAuASB Action 1B.10: Consider developing guidance for Audit Committees, similar to the audit committee practice guide recently issued in Australia.

7. The proposed changes are summarised in the table below.

Strategic Plan Strategy	Action
Specific Strategy 1: Maintain & Enhance Existing Standards – Part A: Maintain Existing Suites of Standards (Business as Usual)	Action 1A.1: Contributing to International Due Process
	Action 1A.2: Maintaining New Zealand Standards
	Action 1A.3: Monitoring the Assurance Environment
Specific Strategy 1: Maintain & Enhance Existing Standards – Part B: Address Critical Issues	Action 1B.1: Developing Guidance on Assurance on Non-Financial Information
	Action 1B.2: Developing an Assurance Standard on the Examination of Prospective Information
	Action 1B.3: Developing an Auditing Standard on Auditing of Service Performance Information
	Action 1B.4: Developing Adopting the revised IAASB Standard on Agreed Upon Procedures
	Action 1B.5: Developing Guidance on the use of the XRB auditing and assurance standards and relevant assurance products
	Action 1B.6: Developing a Review Standard on Reviewing of Service Performance Information
	Action 1B.7 : Developing an Engagement Standard/Guidance for smaller NFPs to better

	meet the needs of users, as informed by research completed in 2016-2017.
	Action 1B.8 : Develop Guidance on the use of the Compliance Engagement Standard
	NZAuASB Action 1B.9: Developing guidance or amending NZ SRE 2410 <i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i>
	NZAuASB Action 1B.10: Consider developing guidance for Audit Committees, similar to the audit committee practice guide recently issued in Australia.
Specific Strategy 2: Undertake User-Needs Research	Action 2.1: Researching Assurance Needs of Users of Non-Public Interest Entities Reports
	Action 2.2: Researching the Demand for Simple Assurance for Small NFPs
	Action 2.2: Obtaining a better understanding about the integrity of the application of the International Standard of Assurance Engagements (New Zealand) 3000 (Revised), <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i> .
Specific Strategy 3: Influence the International Boards	Action 3.1: Building Relationships with the IAASB
	Action 3.2: Increasing the International Visibility of the NZAuASB
	Action 3.3: Building Relationships with the IESBA
Specific Strategy 4: Enhance Constituency Engagement and Support	Action 4.1: Enhancing Due Process Consultation
	Action 4.2: Undertaking On-Going Dialogue
	Action 4.3: Improving Engagement Relating to Other Assurance Reports
	Action 4.4: Improving Engagement with Small Assurance Practitioners
Specific Strategy 4: Enhance Constituency Engagement and Support <i>continued</i>	Action 4.5: Promoting Understanding of Other Assurance Engagements
	Action 4.6: Promoting Greater Understanding of the Purpose of Audits and Reviews
	Action 4.7: Promoting Understanding of the New Auditor Reporting Requirements
	Action 4.8: Promoting Understanding of the

	New NOCLAR Reporting Requirements
	Action 4.9: Promoting Understanding of the Factors that Affect Audit Quality
	Action 4.10: Facilitating the Enhancement of Audit Quality

8. We have also updated the indicative timing and indicative resource schedules that the Board approved in 2016. Agenda Paper 4.3 provides the suggested broad timing for the NZAuASB's strategic actions, together with an indication of the broad magnitude of the likely resourcing required for each strategic action. We believe that we have adequate resources to implement the strategic actions.
9. Agenda paper 4.4 provides the suggested, more specific, timing for the NZAuASB's strategic actions. The suggested timing has been updated to cover the next three years of the strategic period, with the remaining two years deliberately not covered in detail at this point given how far away they are.
10. The main change to the timing schedule at agenda item 4.4 is our recommendation to delay NZAuASB Action 1B.1: Developing Guidance on Assurance on Non-Financial Information by a further 36 months to the 2020/21 year. The reason for this delay is to allow time for reporting requirements to be developed, which is a pre-requisite before assurance guidance can be developed. This timing will need to be reconsidered annually.
11. The "annual cut" of the NZAuASB Strategic Action Implementation Plan for 2017/18, identifying the specific actions that will be undertaken in this year is available at agenda 4.5, and is based on the timing identified in agenda 4.4.

Matters to consider

12. We specifically request feedback from the Board on whether the Board agrees with:
 - the new actions added in the development of the SAP 2017-2022;
 - the allocated timing and prioritising of the various actions in the SAP; and
 - the planned actions noted against each strategic action in the Strategic Action Implementation Plan for 2017/18.

Recommendation

We recommend that the Board APPROVE, subject to feedback received at the meeting:

- the NZAuASB Strategic Action Plan document for the five year period 1 July 2017 to 30 June 2022;
- the updated indicative resourcing and indicative timing schedules for the NZAuASB Strategic Actions for the 2017 to 2020 period; and
- the "annual cut" of the NZAuASB Strategic Action Implementation Plan for 2017/18, identifying the specific actions that will be undertaken in this year.

Material Presented

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	NZAuASB SAP 2017-2022
Agenda item 4.3	NZAuASB 2017-20 Strategic Action Plan- Indicative Resourcing
Agenda item 4.4	NZAuASB 2017-20 Strategic Action Plan- Indicative Timing
Agenda item 4.5	NZAuASB Strategic Action Implementation Plan for 2017/18

*"Giving Life to the User-
Needs Framework"*

Strategic Action Plan

For the five year period

1 July ~~2016~~ 2017 to 30 June
~~2021~~ 2022

September ~~2016~~ 2017

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1. Overview of the NZAuASB

The New Zealand Auditing and Assurance Standards Board (NZAuASB) is a Committee of the External Reporting Board (XRB) established under schedule 5 of the Crown Entities Act.

The NZAuASB has delegated authority from the XRB Board to develop or adopt and issue auditing and assurance standards (including professional and ethical standards for assurance practitioners). In doing so the NZAuASB must operate with the financial reporting strategy established by the XRB Board.

The NZAuASB also issues "Other Assurance Standards" in accordance with an [authority provided](#) by the Minister of Commerce issued under section 24 (1) (b) (v) of the Financial Reporting Act 1993.

1.1 NZAuASB Outcome Goal

The NZAuASB's strategic objective is:

To establish auditing and assurance standards which will encourage assurance providers to behave and provide assurance in a manner that engenders confidence in New Zealand financial reporting, assists entities to compete internationally, and enhances entities' accountability to stakeholders.

The provision of high quality assurance that provides users with confidence about the fair presentation of the information presented in financial reports is vital to the achievement of the XRB's outcome goal. The NZAuASB considers the suite of auditing and assurance standards, and how they are being applied, with this objective in mind. The NZAuASB issues such standards or guidance as it considers necessary from time to time to achieve its strategic objective.

1.2 Role and Responsibilities of the NZAuASB

The primary responsibility of the NZAuASB is to develop or adopt, expose, finalise and promulgate:

- auditing and assurance standards for use in audit or assurance engagements required by statute;
- professional and ethical standards to be applied by assurance practitioners undertaking statutory assurance engagements; - and
- other assurance standards within the scope of any "additional assurance standards" approval provided by the Responsible Minister in accordance with the Financial Reporting Act 2013.

Other more specific responsibilities include:

- ensuring that the auditing and assurance standards are -consistent with the "financial reporting strategy" established from time-to-time by the XRB Board, including:
 - adoption of international standards;

- development of standards jointly with Australia; or
 - development of New Zealand specific standards as may be required by the strategy;
- developing and promulgating guidance material to support the application of issued standards as necessary;
- undertaking or commissioning research relating to auditing and assurance or matters concerning professional and ethical conduct;
- working with the Australian Auditing and Assurance Standards Board (AUASB), through reciprocal membership and liaison, to promote cooperation and the harmonisation of New Zealand and Australian auditing and assurance standards within the parameters of the financial reporting strategy established by the XRB Board;
- preparing submissions to international standard setting bodies responsible for auditing and assurance and professional and ethical standards on exposure drafts issued by them and/or matters of importance to auditing and assurance in New Zealand;
- liaising with, and contributing to the work of, international standard setting bodies in areas of importance to auditing and assurance in New Zealand and which are consistent with the XRB Board's financial reporting strategy;
- participating in relevant international fora and groupings, including those involving national standard-setters;
- contributing as appropriate to the development and implementation of the XRB's Strategic Plan; and
- act as thought leaders on assurance issues.

The NZAuASB's Strategic Action Plan reflects these responsibilities.

2. Introduction to the NZAuASB's Strategic Action Plan

2.1 The NZAuASB's Strategic Action Plan

This document is the Strategic Action Plan of the NZAuASB. It outlines the specific actions that the NZAuASB intends to take in the ~~2016~~2017/17-18 financial year and subsequent years to give effect to the XRB's overarching strategic plan (see section 2.2). Those actions are consistent with the roles and responsibilities of the NZAuASB – see section 1.2 above.

It is intended to update and revise this NZAuASB Strategic Action Plan annually during the five year period covered by the overarching strategic plan. This will help ensure that the Strategic Action Plan is a dynamic document that reflects achievements to date and new subsequent actions.

The broad strategic approach of the NZAuASB for the ~~2016~~2017-2021-2022 period can be summarised as follows:

- Maintaining and enhancing the existing suite of auditing and assurance standards (including professional and ethical standards for assurance practitioners); and
- Continuing the convergence and harmonisation approach (where relevant) for auditing and assurance standards; and
- Working to ensure that New Zealand's auditing and assurance standards are understood and applied in accordance with the NZAuASB's strategic objective.

The NZAuASB's output priorities and delivery mechanisms are aligned with the XRB's Strategic Plan outlined below in section 2.2 and 2.3, and are further described in section 3 and section 4.

2.2 The XRB's Strategic Plan

~~In August 2016 the External Reporting Board (XRB) updated its Strategic Plan for the five-year period 1 July 2014 to 30 June 2019 entitled "Giving Life to the User Needs Framework" (Strategic Plan).¹~~

The XRB considers the underlying foundations of the Strategic Plan for the ~~five-year period 1 July 2014 to 30 June 2019~~ entitled "Giving Life to the User Needs Framework" (Strategic Plan).² continue to be appropriate for ~~the Strategic Plan for the five-year period 1 July 2016 to 30 June 2021~~2017-2022. Therefore, the XRB strategic priorities for the period ~~2016~~2017-2021-2022 continue to be based broadly on the same foundations ~~as those for the period 2014-2019~~.

2.3 Summary of the XRB's Strategies for the ~~2016~~2017-2021-2022 Period

The Strategic Plan establishes the strategic priorities for the XRB Organisation for the next 5 years. It comprises an overarching strategy and five specific strategies which are summarised as follows:

Overarching Strategy

Maintain the existing financial reporting strategic approach comprising accounting and auditing & assurance standards that are converged with international standards and harmonised, where relevant, with Australian standards. In the case of accounting standards this is set within the established multi-standards, multi-tier accounting framework.

Specific Strategy 1: Maintain and Enhance Existing Standards

Establish a period of relative standards stability during which the existing suites of standards are maintained to reflect changes to international standards and, where necessary, enhanced to address any deficiencies or gaps that are critical to user-needs and the quality of financial reporting.

¹-A copy of the Strategic Plan is available at: http://www.xrb.govt.nz/Site/about_us/Accountability_Documents.aspx

² A copy of the Strategic Plan is available at: http://www.xrb.govt.nz/Site/about_us/Accountability_Documents.aspx

Expand, where necessary, the XRB's mandate to issue standards to better meet user-needs and market demands.

Specific Strategy 2: Undertake User-Needs Research

Undertake deliberate, organised research into the financial and non-financial information needs of the various users of our standards as a basis for considering enhancements to the financial reporting framework or specific standards in the future, and to help inform efforts to influence the work of the international standard setting boards.

Undertake a post-implementation review of the XRB's financial reporting strategy and the standards frameworks in the 2019-2020 period, including the costs and benefits aspects of the standards framework.

Specific Strategy 3: Influence the International Boards

Support the international convergence strategy by actively:

- ~~Seeking to influence the work of the international boards during the early stages of agenda and standards development work of the through "influencing strategies" specific to each international board so that standards are relevant to New Zealand entities; international standard setting boards based on two broad (and interconnected) approaches: relationships and participation.~~
- Participating in the work of the international standard setting boards through relationships, contribution by staff and, where appropriate, representation on international boards; and
- Monitoring international developments to stay informed of, and respond to, any major disruptions in the international standard setting structure and environment.

~~Actively influence the agenda and standards development work of the international standards setting boards through relationships, participation and, where appropriate, supporting New Zealand membership on international boards.~~

Specific Strategy 4: Enhance Constituency Engagement and Support

Continue to develop standards in a collaborative manner with the constituency and to this end:

- ~~establish approaches to further~~ enhance the level and quality of constituency engagement, including further widening the membership representation of the XRAP and using it as a platform for constituency and market feedback;
- increase the organisation's involvement in ~~education awareness~~ activities that help the constituency better understand the role, purpose and requirements of our standards, including developing a communications strategy for social media;

- actively promote the awareness, understanding and implementation of extended external reporting (EER) among New Zealand constituents and set specific targets and goals to monitor the success (or otherwise) of such awareness raising;
- actively encourage, facilitate and support other relevant organisations to provide appropriate training and professional development activities relating to financial reporting; and
- actively work with other agencies to ensure the linkages between the work of relevant agencies in the financial and non-financial reporting and assurance areas are identified and gaps addressed.

Specific Strategy 5: Maintain Capability within a Financially Prudent Organisation

Maintain a high performance culture commensurate with achieving the XRB's outcome goals, while operating in a financially prudent manner and maintaining the level of capability needed to deliver the outputs required.

3. Business as Usual Activities

This section outlines the "business as usual" activities that the NZAuASB will undertake during the strategic period. These activities comprise the actions required to maintain the existing suites of standards in accordance with the overarching strategy (convergence with international standards, and harmonisation with Australian standards where appropriate). To a large extent these activities are a continuation of the activities undertaken by the NZAuASB during the previous strategic period.

Specific Strategy 1: Maintain and Enhance Existing Standards – Part A: Maintain Existing Suites of Standards

Purpose of Strategy

The purpose of this strategy is to ensure that the existing suites of standards are maintained on an on-going basis so that they are fully converged with international standards and harmonised with Australian standards where appropriate at all times.

The actions required under this strategy are those necessary to ensure convergence and harmonisation is maintained, including actively monitoring any issues emerging from the implementation of standards, and responding to those issues where appropriate.

NZAuASB's Specific Strategic Actions

As outlined in section 1.2, the NZAuASB's focus is primarily on promulgating auditing and assurance standards. Accordingly, the NZAuASB's planned business as usual activities are primarily concerned with maintaining the existing suites of auditing & assurance standards, including ensuring those standards are converged with international standards and harmonised with Australian standards as appropriate.

Action 1A.1: Contributing to International Due Process

The NZAuASB will actively contribute to the “due process” activities of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). These activities relate to the development or amendment of international standards.

The Action will comprise:

- a. Ensuring assurance practitioners and relevant users of assurance reports are aware of ~~the~~ IAASB and ~~the~~ IESBA due process documents and encouraging them to make submissions directly to the international boards and to the NZAuASB;
- b. Responding, as appropriate, to ~~the~~ IAASB and ~~the~~ IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in conjunction with the AUASB where appropriate;
- c. Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.

Action 1A.2: Maintaining New Zealand Standards

The NZAuASB will amend the auditing and assurance standards (auditing standards, review engagement standards, other assurance standards) to ensure that the existing suites of standards are maintained on an on-going basis.

The Action will comprise:

- a. Incorporating any auditing and assurance standards, or amendments to those standards, issued by the IAASB, to achieve convergence, and including working with the AUASB to ensure any changes are appropriately harmonised; and
- b. Incorporating any professional and ethical standards, or amendments to those standards, issued by the IESBA, including liaising with the Australian Professional Ethical Standards Board (APESB) to ensure any changes are appropriately harmonised.

Action 1A.3: Monitoring the Assurance Environment

The NZAuASB will monitor the wider assurance environment and consider the implications of any developing issues for New Zealand auditing and assurance standards.

The Action will comprise:

- a. Monitoring issues arising from the implementation of the current suite of standards and responding as appropriate;
- b. Monitoring issues or gaps with the current suite of standards and responding as appropriate.
- c. Tracking local and international research projects and considering the implications for the New Zealand auditing and assurance standards;
- d. Monitoring results from QA reviews conducted locally and internationally and considering the implications for New Zealand auditing and assurance standards;

- e. Contributing to government policy work relating to auditing and assurance standards.

4. Specific Strategic Actions

This section outlines the new specific strategic actions that the NZAuASB intends to carry out during the period of the strategic plan. These strategic actions comprise activities that would not normally be undertaken as part of the business as usual actions outlined in section 3.

They also relate to issues or matters not addressed (or addressed in any detail) by the NZAuASB previously.

Specific Strategy 1: Maintain and Enhance Existing Standards – Part B: Address Critical Issues

Purpose of Strategy

Specific Strategy 1 of the overarching Strategic Plan includes creating a “period of relative stability” in standards for the next few years to allow the constituency to implement and adapt to the legislative and standards framework changes that have occurred during the 2011-14 period.

This period of relative stability does not mean that there will be no changes to standards. The need to ensure New Zealand standards are converged internationally and harmonised with Australia (where relevant) means that some change to the standards is inevitable. In addition, the overarching Strategic Plan envisages that the period of relative stability should not prevent any “critical issues” with existing standards being addressed.

The purpose of this strategy is to address any deficiencies or gaps in existing standards that are critical to user-needs and the quality of financial reporting. The actions required under this strategy are to (a) identify critical issues; and (b) undertake appropriate actions to address those critical issues within a reasonable timeframe.

NZAuASB’s Specific Strategic Actions

As previously outlined, the NZAuASB’s primary focus is on promulgating auditing and assurance standards. The Board spent the 2009-2014 period developing and issuing amended standards to give effect to the new Auditing & Assurance Standards Framework. Many of these new standards ~~will become~~ became effective during the 2014-2016 period and critical issues may emerge that need to be addressed. The Board will do so should this occur.

In addition, the NZAuASB is aware of a small number of critical issues with the existing standards that it plans to address during the ~~2016-2017~~ 2018-2020 period:

Action 1B.1: Developing Guidance on Assurance on Non-Financial Information

The NZAuASB will develop guidance on providing assurance on non-financial information other than service performance information.

The Action will comprise:

- a. Obtaining a greater understanding of the assurance engagements on non-financial information being carried out in New Zealand;
- b. Developing the guidance in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.

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

The NZAuASB will develop an assurance standard for other assurance engagements involving the examination of prospective information.³

The Action will comprise developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.

Action 1 B3: Developing an Auditing Standard on Auditing Service Performance Information

The NZAuASB will develop an auditing standard on auditing service performance for Public Benefit Entities (PBEs).⁴

The Action will comprise developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.

Action 1 B4: ~~Developing-Adopting the revised IAASB a~~ Standard on Agreed Upon Procedures

~~When the XRB obtains the mandate⁵ to issue a standard on agreed upon procedures, the NZAuASB will actively contribute to the "due process" activities of the International Auditing and Assurance Standards Board (IAASB) in revising the international standard on agreed upon procedures. The NZAuASB will develop-adopt the international a Standard on Agreed Upon Procedures -in accordance with due process to achieve convergence, and in collaboration with the AUASB as appropriate. (when the XRB obtains the mandate to do so⁶), in accordance with due process for domestic standards and in collaboration with the AUASB as appropriate.~~

Action 1 B5: Developing Guidance on the use of the XRB auditing and assurance standards and relevant assurance products.

³ There is currently no such standard in the New Zealand suite of standards. An assurance standard on prospective information is relevant for both listed entities and in the public sector. For example, in New Zealand all local government entities are required to prepare a 10 year Long Term Plan that has to be audited every 3 years.

⁴ This action reflects the new accounting standards that encourage (and sometimes require) PBEs to include both financial and non-financial information in their general purpose financial reports to report their performance. In addition many PBEs are required by legislation to report service performance information.

⁵ ~~The XRB's mandate is currently limited to the issue of auditing and assurance standards, which by definition excludes a standard on Agreed Upon Procedures. The Government has agreed to promote an amendment to the XRB's mandate to allow the issue of an Agreed Upon Procedures standard.~~

⁶ ~~The XRB's mandate is currently limited to the issue of auditing and assurance standards, which by definition excludes a standard on Agreed Upon Procedures. The Government has agreed to promote an amendment to the XRB's mandate to allow the issue of an Agreed Upon Procedures standard.~~

The NZAuASB will develop guidance that explain the difference between reasonable and limited assurance, as well as various assurance products that are available, relevant standards to use, how to deal with unclear assurance requirements, and the correct terminology to use when setting assurance requirements in legislation and/or policies.

The Action will comprise the developing of appropriate guidance.

Action 1 B6: Developing a Review Standard on Reviewing Service Performance Information

The NZAuASB will develop a review standard on reviewing service performance for Public Benefit Entities (PBEs).

The Action will comprise developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.

Action 1 B7: Developing an Engagement Standard/Guidance for smaller NFPs

The NZAuASB will develop an engagement standard/guidance for smaller NFPs, not required by statute to have an audit or review, to better meet the needs of users, as informed by research completed ion 2016-17.

The Action will comprise developing the standard/guidance in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.

Action 1 B8: Developing Guidance on the use of the Compliance Engagement Standard

The NZAuASB will develop guidance to better explain the use of the Compliance Engagement Standard.

The Action will comprise developing the guidance in conjunction with the Office of the Auditor-General.

Action 1 B9: Developing Guidance or amending NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*

The NZAuASB will consider developing guidance or amending NZ SRE 2410 for the new auditor reporting requirements.

This action will comprise:

Deciding whether to amend the standard or to only develop guidance, similar to guidance developed by the AUASB.

Amending the standard in accordance with the due process for domestic standards or developing guidance similar to the AUASB guidance.

Action 1 B10: Consider developing guidance for Audit Committees

The NZAuASB will consider whether to develop guidance for Audit Committees, similar to the guidance recently issued in Australia.

This action will comprise:

Consider the guidance for Audit Committees recently published in Australia, and decide whether to develop similar guidance in New Zealand, in collaboration with other parties.

Specific Strategy 2: Undertake User-Needs Research

A key objective of the XRB is to ensure that auditing and assurance standards are based on a user-needs approach i.e. the assurance reports required by those standards provide the level of assurance and information required by users of those assurance reports for accountability and decision-making purposes.

~~The purpose of this strategy is to enhance the NZAuASB's understanding of user needs in New Zealand. This will in turn help inform future decisions about the detailed requirements of NZAuASB standards.~~

The strategy involves undertaking deliberate, organised research into needs of the various users of NZAuASB standards as a basis for considering enhancements to the NZAuASB's standards in the future, and to help inform efforts to influence the work of the international standard setting boards.

NZAuASB's Specific Strategic Actions

Specific User Needs Research

The NZAuASB has identified ~~two~~ the following areas where it considers user-needs research would be beneficial in relation to existing auditing and assurance standards.

Action 2.1: Researching Assurance Needs of Users of Non-Public Interest Entities Reports

The NZAuASB will ~~will complete the~~ research commenced in 2016-17 on the assurance needs of users of assurance reports for entities that are not public interest entities (non-PIEs). The results of the research will be used as input into a future review of whether users' needs are appropriately met by the less stringent requirements for assurance for non-PIEs.

The Action has been outsourced and ~~will~~ comprises:

- a. Identifying the types of entities that make up the non-PIE population;
- b. A literature review on user assurance needs for those types of entities; and
- c. An empirically-based analysis of the users of assurance reports of those types of entities and their assurance needs.

Action 2.2: Researching the Demand for Simple Assurance for Small NFPs

~~The NZAuASB will research the user-based demand for a simple form of assurance for small entities in the NFP Sector. The results of the research will be used to inform future consideration of whether a new simple assurance engagement should be developed for small entities.~~

~~The Action will comprise:~~

- ~~a. Identifying the types of entities that are small NFP entities;~~
- ~~b. A literature review on user assurance needs for those types of entities; and~~

~~c. An empirical-based analysis of the users of assurance reports of those types of entities and their assurance needs.~~

Research to Enhance the Board's Knowledge

The NZAuASB ~~will complete its research commenced in 2016-17~~ ~~has identified the following area where it plans to undertake research~~ to enhance its knowledge about the entities applying auditing and assurance standards or about particular assurance issues.

Action 2.32: Obtaining a better understanding about the integrity of the application of the International Standard of Assurance Engagements (New Zealand) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

The NZAuASB will ~~undertake complete its~~ research to seek information about to what extent and how the XRB standards on assurance engagements are applied by assurance practitioners (including non-accountants) performing other assurance engagements in New Zealand. ~~The result of this research will be used to identify the need to:~~

- raise awareness of the XRB assurance engagements standards; and
- develop guidance, specifically in respect of quality control and ethical requirements.

The Action ~~will~~ comprises:

- a. Identifying the types of assurance engagements, other than audits and reviews, assurance practitioners conduct in New Zealand in accordance with, or with reference to, the XRB assurance engagements standards;
- b. Analysing to what extent and how the XRB assurance engagements standards are applied, and whether they adequately address the assurance requirements.

Specific Strategy 3: Influence the International Boards

Purpose of Strategy

A key aspect of the overarching strategy contained in the XRB Strategic Plan is the international convergence approach. Implicit in this approach is the need for the NZAuASB to mostly be a "standard-taker" i.e. to use the international standards as the base for New Zealand standards. For those standards to be appropriate in New Zealand, it is important for the NZAuASB to seek to influence international standards "at the front end" (i.e. during their development stage) as the ability to influence the content of international standards once an exposure draft is issued is limited.

The purpose of Specific Strategy 3 is to seek to influence the work of the international boards during the early stages of standards development through the establishment of "influencing strategies" specific to each international board.

NZAuASB's Specific Strategic Actions

The NZAuASB's specific strategic actions relating to Specific Strategy 3 reflects the Board's responsibilities for promulgating auditing and assurance standards. Its influencing strategies are therefore targeted at the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).

IAASB

Action 3.1: Building Relationships with the IAASB

The NZAuASB will seek to build and maintain relationships with IAASB members and staff⁷.

The Action will comprise:

- a. Attending relevant meetings and events (including National Standard Setters meetings);
- b. Taking opportunities to meet with IAASB members and staff;
- ~~c.~~ c. Fostering relationships with Australasian representatives on the IAASB and those who are involved in relevant working groups;
- ~~c.~~
- d. Hosting IAASB members and staff in visits to New Zealand.

Action 3.2: Increasing the International Visibility of the NZAuASB

The NZAuASB will take advantage of opportunities to increase its visibility in the international arena so as to illustrate its ability to contribute to the work of the IAASB in a constructive and high-quality way.

The Action will comprise:

- a. Volunteering to present at the NSS meetings on New Zealand projects or with the AUASB on joint projects; and
- b. Identifying appropriate, mutually beneficial IAASB projects and contributing technical resources in support of those projects.

IESBA

Action 3.3: Building Relationships with the IESBA

The NZAuASB will seek to build relationships with IESBA members and staff⁸.

The Action will comprise:

- a. Attending relevant meetings and events (including NSS meetings);
- b. Taking opportunities to meet with IESBA members and staff; and
- c. Fostering relationships with Australian representatives on the IESBA.

⁷ The XRB Board is responsible for building relationships at the governance and strategy level including with IFAC and the Public Interest Oversight Board (PIOB).

⁸ The XRB Board is responsible for building relationships at the governance and strategy level including with IFAC and the PIOB.

Specific Strategy 4: Enhance Constituency Engagement and Support

Another key aspect of the XRB's standard setting strategy is to ensure that its boards develop standards in collaboration with the constituency. This is reflected in Specific Strategy 4 which has three elements: constituent engagement, educational activities, and sector facilitation.

Constituency Engagement

Purpose of Strategy

The purpose of this strategy is to establish ways for the NZAuASB to enhance the level and quality of constituent engagement.

NZAuASB's Specific Strategic Actions

Action 4.1: Enhancing Due Process Consultation

The NZAuASB will seek to enhance consultation with major assurance practitioners and user constituent groups⁹ on specific issues relating to the auditing and assurance standards, especially consultation relating to due process documents.

The Action will comprise:

- a. Identifying and implementing innovative, targeted consultation methods that are high value-added but relatively low-effort from the constituents' point of view; and
- b. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.

Action 4.2: Undertaking On-Going Dialogue

The NZAuASB will undertake an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing and assurance standards, including changes resulting from the evolving nature of the audit market.

The Action will comprise:

- a. Meeting with major constituent groups on a rolling basis as part of the NZAuASB's regular meetings;
- b. Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups; and
- c. Maintaining strong working relationships at the operational level with key constituent groups.

6. —

Action 4.3: Improving Engagement Relating to Other Assurance Reports

⁹ CAANZ, CPA, FMA, IOD and others

The NZAuASB will seek to improve its engagement with assurance practitioners and (particularly) users of Other Assurance Reports (i.e. assurance engagements other than audits and reviews of historical financial statements).

The Action will comprise:

- a. Developing and maintaining a constituency database identifying these users and assurance practitioners;
- b. Specifically targeting this group when consulting about relevant standards using customised communication approaches.

Action 4.4: Improving Engagement with Small Assurance Practitioners

The NZAuASB will seek to improve its engagement with assurance practitioners that are small firms and sole practitioners.

The Action will comprise:

- a. Developing and maintaining a constituency database identifying these assurance practitioners;
- b. Specifically targeting this group when consulting about relevant standards using customised communication approaches.

Educational Awareness Raising Activities

Purpose of Strategy

The purpose of this strategy is to increase the organisation's involvement in helping constituents better understand the purpose and requirements of NZAuASB standards.

NZAuASB's Specific Strategic Actions

The focus of the NZAuASB's specific actions will be primarily about ensuring assurance practitioners understand the auditing and assurance standards they have to apply when performing assurance engagements required by law.

Action 4.5: Promoting Understanding of Other Assurance Engagements

The NZAuASB will undertake activities to promote an increased understanding of the requirements of Other Assurance Standards and the engagements they apply to.

The Action will comprise: conducting seminars, presentations, speaking engagements and other educational awareness raising activities as appropriate that ~~inform~~ help raise awareness of assurance practitioners and users about what comprises Other Assurance engagements and the standards that apply to those engagements.

Action 4.6: Promoting Greater Understanding of the Purpose of Audits and Reviews

The NZAuASB will undertake activities to promote an increased understanding by assurance users of the purpose of audit and review engagements.

The Action will comprise:

- a. ~~Actively encourage, facilitate and support other relevant organisations Working with umbrella groups~~ to help them educate their members on the purpose of audit and review engagements;
- b. Conducting seminars, presentations, speaking engagements and other ~~educational-awareness raising~~ activities as appropriate to help ~~educate-raise awareness of~~ assurance users and those charged with governance in the general constituency about the purpose of audit and review engagements, with a particular emphasis on the NFP sector.

Action 4.7: Promoting Understanding of the New Auditor Reporting Requirements

The NZAuASB will undertake activities to promote an understanding of the IAASB's new auditor reporting requirements as they apply to New Zealand reporting entities.

The Action will comprise:

- a. ~~Actively encourage, facilitate and support other relevant organisations Working with umbrella groups~~ where appropriate to help them ensure their members understand the new auditor reporting requirements;
- b. Conducting seminars, presentations, speaking engagements and other ~~educational-awareness raising~~ activities as appropriate that ~~inform-help raise awareness of~~ assurance users and those charged with governance about the new auditor reporting requirements.

Action 4.8: Promoting Understanding of the New NOCLAR Requirements

The NZAuASB will undertake activities to promote an understanding of the IESBA's new non-compliance with law and regulations (NOCLAR) requirements that apply to assurance practitioners.

The Action will comprise:

- a. ~~Actively encourage, facilitate and support other relevant organisations Working with umbrella groups~~ where appropriate to help them ensure their members understand the new NOCLAR reporting requirements;
- b. Conducting seminars, presentations, speaking engagements and other ~~educational-awareness raising~~ activities as appropriate ~~that inform to help raise awareness of~~ assurance users and those charged with governance about the new NOCLAR requirements.

Sectoral Facilitation

Purpose of Strategy

The purpose of this strategy is two-fold:

- To actively encourage, facilitate and support other relevant organisations to provide appropriate training and professional development activities relating to financial reporting; and

- To actively work with other agencies to ensure the linkages between the work of relevant agencies in the financial reporting area are identified and gaps addressed.

NZAuASB's Specific Strategic Actions

The focus of the NZAuASB's specific actions will be to work with other key organisations to enhance audit quality in New Zealand through the application of the IAASB's framework for Audit Quality.

Action 4.9: Promoting Understanding of the Factors that Affect Audit Quality

The Action will comprise:

- Actively encourage, facilitate and support other relevant organisations where appropriate to help them ensure their members understand the factors that affect audit quality;
- Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform all participants in the external reporting supply chain about the factors that affect audit quality.

Action 4.10: Facilitating the Enhancement of Audit Quality

~~The NZAuASB will encourage other key organisations involved in financial reporting to work together to enhance audit quality in New Zealand through the application of the IAASB's Framework for Audit Quality.~~

~~The Action will comprise actively engaging with relevant groups within the financial reporting chain to:~~

- ~~Identify potential gaps in audit quality in the New Zealand market by analysing current arrangements against the IAASB framework; and~~
- ~~Identify areas for enhancing current practice, approaches or standards by key stakeholders.~~

5. NZAuASB Strategic Action Plan Summary

The NZAuASB's planned strategic actions are summarised in the table below.

Strategic Plan Strategy	Action
Specific Strategy 1: Maintain & Enhance Existing Standards – Part A: Maintain Existing Suites of Standards (Business as Usual)	Action 1A.1: Contributing to International Due Process
	Action 1A.2: Maintaining New Zealand Standards
	Action 1A.3: Monitoring the Assurance Environment

Specific Strategy 1: Maintain & Enhance Existing Standards – Part B: Address Critical Issues	Action 1B.1: Developing Guidance on Assurance on Non-Financial Information
	Action 1B.2: Developing an Assurance Standard on the Examination of Prospective Information
	Action 1B.3: Developing an Auditing Standard on Auditing of Service Performance Information
	Action 1B.4: Developing Adopting the revised a <u>IAASB</u> Standard on Agreed Upon Procedures
	Action 1B.5: Developing Guidance on the use of the XRB auditing and assurance standards and relevant assurance products
	Action 1B.6: Developing a Review Standard on Reviewing of Service Performance Information
	<u>Action 1B.7 : Developing an Engagement Standard/Guidance for smaller NFPs to better meet the needs of users, as informed by research completed in 2016-2017.</u>
	<u>Action 1B.8 : Develop Guidance on the use of the Compliance Engagement Standard</u>
	<u>NZAuASB Action 1B.9:</u> <u>Developing guidance or amending NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity</u>
	<u>NZAuASB Action 1B.10:</u> <u>Consider developing guidance for Audit Committees, similar to the audit committee practice guide recently issued in Australia.</u>
Specific Strategy 2: Undertake User-Needs Research	Action 2.1: Researching Assurance Needs of Users of Non-Public Interest Entities Reports
	Action 2.2: Researching the Demand for Simple Assurance for Small NFPs
	Action 2.32: Obtaining a better understanding about the integrity of the application of the International Standard of Assurance Engagements (New Zealand) 3000 (Revised), <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i> .
Specific Strategy 3: Influence the International Boards	Action 3.1: Building Relationships with the IAASB
	Action 3.2: Increasing the International Visibility of the NZAuASB
	Action 3.3: Building Relationships with the IESBA

Specific Strategy 4: Enhance Constituency Engagement and Support	Action 4.1: Enhancing Due Process Consultation
	Action 4.2: Undertaking On-Going Dialogue
	Action 4.3: Improving Engagement Relating to Other Assurance Reports
	Action 4.4: Improving Engagement with Small Assurance Practitioners
Specific Strategy 4: Enhance Constituency Engagement and Support <i>continued</i>	Action 4.5: Promoting Understanding of Other Assurance Engagements
	Action 4.6: Promoting Greater Understanding of the Purpose of Audits and Reviews
	Action 4.7: Promoting Understanding of the New Auditor Reporting Requirements
	Action 4.8: Promoting Understanding of the New NOCLAR Reporting Requirements
	Action 4.9: Promoting Understanding of the Factors that Affect Audit Quality
	Action 4.10: Facilitating the Enhancement of Audit Quality

Summarised NZAuASB Strategic Action Plan 2017-2020: Indicative Resourcing

Strategic Plan Strategy	NZAuASB Actions		
Specific Strategy 1: Maintain and Enhance Existing Standards – Part A: Maintain Existing Suites of Standards (Business as Usual)			
Monitoring	NZAuASB Action 1A.3: Monitoring the Assurance Environment	Timing: Ongoing	Resource: Within existing capacity
International Due Process	NZAuASB Action 1A.1: Contributing to International Auditing and Assurance Standards Due Process	Timing: Ongoing	Resource: Within existing capacity
Maintenance	NZAuASB Action 1A.2: Maintaining New Zealand Auditing and Assurance Standards	Timing: Ongoing	Resource: Within existing capacity
Specific Strategy 1: Maintain and Enhance Existing Standards – Part B: Address Critical Issues			
For-Profit Entities	NZAuASB Action 1B.1: Developing Guidance on Assurance on Non-Financial Information	Timing: Later years ¹	Resource: Significant within existing capacity
PBE Entities	NZAuASB Action 1B.3: Developing an Auditing Standard on Auditing of Service Performance Information	Timing: Underway	Resource: Significant within existing capacity
General	NZAuASB Action 1B.2: Developing an Assurance Standard on the Examination of Prospective Information	Timing: Later years This financial year	Resource: Significant within existing capacity
General	NZAuASB Action 1B.4: Developing Adopting the revised international a Standard on Agreed Upon Procedures	Timing: This financial year Later years	Resource: Significant Moderate within existing capacity
General	NZAuASB Action 1B.5: Developing Guidance on the use of the XRB auditing and assurance standards and relevant assurance products	Timing: Underway	Resource: Moderate within existing capacity
PBE Entities	NZAuASB Action 1B.6: Developing a Review Standard on Reviewing Service Performance Information	Timing: Later years This financial year	Resource: Significant Moderate within existing capacity
PBE Entities	NZAuASB Action 1B.7: Developing an Engagement Standard/Guidance for smaller NFPs to better meet the needs of users, as informed by research completed in 2016-2017.	Timing: This financial year.	Resource: Significant within existing capacity
General	NZAuASB Action 1B.8: Action1B.8 Develop Guidance on the use of the Compliance Engagement Standard	Timing: This financial year.	Resource: Moderate within existing capacity

¹ Delayed by 36 months

General	NZAuASB Action 1B.9: Developing guidance or amending NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity	Timing: This financial year.	Resource: Moderate within existing capacity
General	NZAuASB Action 1B.10: Consider developing guidance for Audit Committees, similar to the audit committee practice guide recently issued in Australia	Timing: This financial year.	Resource: Moderate within existing capacity
Strategic Plan Strategy	NZAuASB Actions		
Specific Strategy 2: Undertake User-Needs Research			
For-Profit Users	NZAuASB Action 2.1: Researching Assurance Needs of Users of Non-Public Interest Entities Reports	Timing: Underway	Resource: Significant outsourced
NFP Users	NZAuASB Action 2.2: Researching the Demand for Simple Assurance for Small NFPs	Timing: UnderwayCompleted	Resource: Moderate within existing capacity
General	NZAuASB Action 2.3: Obtaining a better understanding about the integrity of the application of ISAE(NZ) 3000 (Revised)	Timing: Underway	Resource: Moderate within existing capacity
Strategic Plan Strategy	NZAuASB Actions		
Specific Strategy 3: Influence the International Boards			
IAASB & IESBA	NZAuASB Action 3.1: Building Relationships with the IAASB	Timing: Ongoing	Resource: Chief executive and moderate within existing capability
	NZAuASB Action 3.3: Building Relationships with the IESBA	Timing: Ongoing	Resource: Chief executive and within existing capability
	NZAuASB Action 3.2: Increasing the International Visibility of the NZAuASB	Timing: Ongoing	Resource: Within existing capability
Strategic Plan Strategy	NZAuASB Actions		
Specific Strategy 4: Enhance Constituency Engagement and Support			
Due Process Engaqement	NZAuASB Action 4.1: Enhancing Auditing and Assurance Standards Due Process Consultation	Timing: Ongoing	Resource: Within existing capability

² Increased to 'moderate' due to support for NZ IAASB member.

	NZAuASB Action 4.3: Improving Engagement Relating to Other Assurance Reports	<u>Timing:</u> Ongoing	<u>Resource:</u> Within existing capability
	NZAuASB Action 4.4: Improving Engagement with Small Assurance Practitioners	<u>Timing:</u> Ongoing	<u>Resource:</u> Within existing capability
<i>General Engagement</i>	NZAuASB Action 4.2: Undertaking On-Going Dialogue with Auditing and Assurance Standards Constituent Groups	<u>Timing:</u> Ongoing	<u>Resource:</u> Within existing capability
<i>Constituency Education</i>	NZAuASB Action 4.5: Promoting Understanding of Other Assurance Engagements	<u>Timing:</u> Ongoing	<u>Resource:</u> Moderate within existing capacity
	NZAuASB Action 4.6: Promoting Greater Understanding of the Purpose of Audits and Reviews	<u>Timing:</u> This financial year, then ongoing	<u>Resource:</u> Moderate within existing capacity
	NZAuASB Action 4.7: Promoting Understanding of the New Auditor Reporting Requirements	<u>Timing:</u> Underway	<u>Resource:</u> Significant within existing capacity
	NZAuASB Action 4.8: Promoting Understanding of the New NOCLAR Requirements	<u>Timing:</u> This financial year	<u>Resource:</u> Moderate within existing capacity
	NZAuASB Action 4.9: Promoting Understanding of the Factors that Affect Audit Quality	<u>Timing:</u> This financial year Ongoing	<u>Resource:</u> Moderate within existing capacity
<i>Sectoral Facilitation</i>	NZAuASB Action 4.10: Facilitating the Enhancement of Audit Quality	<u>Timing:</u> This financial year	<u>Resource:</u> Very Significant within existing capacity

Summarised NZAuASB Strategic Action Plan 2017-2022: Indicative Timing

Action	July 2017 – June 2018	July 2018 – June 2019	July 2019 – June 2020	July 2020- June 2021	July 2021- June 2022
Specific Strategy 1: Maintain and Enhance Existing Standards – Part A Business as Usual: Monitoring					
NZAuASB Action 1A.1: Contributing to International Auditing and Assurance Standards Due Process	Ongoing				
Specific Strategy 1: Maintain and Enhance Existing Standards – Part A Business as Usual: International Due Process					
NZAuASB Action 1A.2: Maintaining New Zealand Auditing and Assurance Standards	Ongoing				
Specific Strategy 1: Maintain and Enhance Existing Standards – Part A Business as Usual: Maintenance					
NZAuASB Action 1A.3: Monitoring the Assurance Environment	Ongoing				
Specific Strategy 1: Maintain and Enhance Existing Standards – Part B: Address Critical Issues: For-Profit Entities					
NZAuASB Action 1B.1: Developing Guidance on Assurance on Non-Financial Information				¹	
Specific Strategy 1: Maintain and Enhance Existing Standards – Part B: Address Critical Issues: Public Benefit Entities					
NZAuASB Action 1B.3: Developing an Auditing Standard on Auditing of Service Perf. Information	²				
Specific Strategy 1: Maintain and Enhance Existing Standards – Part B: Address Critical Issues: General					
NZAuASB Action 1B.2: Developing an Assurance Standard on the Examination of Prospective Information					

¹ Delayed by 36 months to when reporting framework may be in place.

² Completion date extended by 6 months

NZAuASB Action 1B.4: Adopting the revised IAASB standard on Agreed Upon Procedures ³					4	
NZAuASB Action 1B.5: Developing guidance on the use of the XRB auditing and assurance standards and relevant assurance products	5					
NZAuASB Action 1B.6: Developing a Review Standard on Reviewing Service Performance Information		6				
NZAuASB Action 1B.7: Developing an engagement standard/guidance for smaller NFPs		7				
NZAuASB Action 1B.8: Developing Guidance on the use of the Compliance Engagement Standard Service	8					
NZAuASB Action 1B.9: Developing guidance or amending NZ SRE 2410 <i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i>	9					
NZAuASB Action 1B.10: To consider developing guidance for Audit Committees. ¹⁰						

³ Previously planned to develop domestic standard in 2017/18. Delay in obtaining mandate to issue AUP standard, so amended action to adopt international standard

⁴ Expect approval of IAASB ED in 2018/19

⁵ Completion date extended by 6 months

⁶ Commencement delayed by 8 months due to delay in completion of Auditing Standard

⁷ New engagement identified

⁸ New engagement identified

⁹ New engagement identified

¹⁰ New action identified. If decide to develop guidance, indicative timing would be to complete 2018/19.

Action	July 2017 – June 2018	July 2017 – June 2018	July 2017 – June 2018	July 2018 – June 2019	July 2018 – June 2019	July 2018 – June 2019	July 2019-June 2020	July 2020 – June 2021
Specific Strategy 2: Undertake User-Needs Research: For-Profit Users								
XRB Action 2.2: Researching Information Needs of Users of For-Profit Tier 2 Entity Reports	Outsourced ¹¹							
XRB Action 2.3: Researching Non-Financial Information Needs of Users in the For-Profit Sector								
NZASB Action 2.1: Researching Information Needs of Users of Tier 2 For-Profit Financial Reports								
NZAuASB Action 2.1: Researching Assurance Needs of Users of Non-Public Interest Entities Reports								
Specific Strategy 2: Undertake User-Needs Research: NFP Users								
NZAuASB Action 2.2: Researching the Demand for Simple Assurance for Small NFPs	Completed – no further action required.							
Specific Strategy 2: Undertake User-Needs Research: Specific Issues								
NZAuASB Action 2.32: Obtaining a better understanding about the integrity of the application of ISAE (NZ) 3000(Revised)	¹² Insourced							

¹¹ Completion delayed by 6 months

¹² Completion date extended by 3 months.

Action	July 2016 – June 2017	July 2017 – June 2018	July 2018 – June 2019	July 2019-June 2020	July 2020-June 2021
Specific Strategy 3: Influence the International Boards: IAASB & IESBA					
NZAuASB Action 3.1: Building Relationships with the IAASB	Ongoing				
NZAuASB Action 3.3: Building Relationships with the IESBA					
NZAuASB Action 3.2: Increasing the International Visibility of the NZAuASB	Ongoing				

Action	July 2017 – June 2018	July 2017 – June 2018	July 2018 – June 2019	July 2019-June 2020	July 2020-June 2021
Specific Strategy 4: Enhance Constituency Engagement and Support: Due Process Engagement					
NZAuASB Action 4.1: Enhancing Auditing and Assurance Standards Due Process Consultation	Ongoing				
NZAuASB Action 4.3: Improving Engagement Relating to Other Assurance Reports	Ongoing				
NZAuASB Action 4.4: Improving Engagement with Small Assurance Practitioners	Ongoing				
Specific Strategy 4: Enhance Constituency Engagement and Support: General Engagement					
NZAuASB Action 4.2: Undertaking On-Going Dialogue with A&A Standards Constituent Groups	Ongoing				
Specific Strategy 4: Enhance Constituency Engagement and Support: Constituency Awareness Raising					
NZAuASB Action 4.5: Promoting Understanding of Other Assurance Engagements	Ongoing				
NZAuASB Action 4.6: Promoting Greater Understanding of the Purpose of Audits and Reviews		Ongoing			
NZAuASB Action 4.7: Promoting Understanding of the New Auditor Reporting Requirements					
NZAuASB Action 4.8: Promoting Understanding of the New NOCLAR Requirements					
Specific Strategy 4: Enhance Constituency Engagement and Support: Sectoral Facilitation					
NZAuASB Action 4.9: Promoting Understanding of the Factors that Affect Audit Quality	13Ongoing				
NZAuASB Action 4.10: Facilitating the Enhancement of	Now incorporated into action 4.9. to better align with mandate				

¹³ Changed to ongoing action

Audit Quality	
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Specific Strategy 1: Maintain Existing Suites of Standards

Key:

Green – ongoing activity and on track

Orange – action is work in progress and on track

Red – no action taken

NZAuASB Action 1A.1: Contributing to International Auditing and Assurance Standards Due Process	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will actively contribute to the “due process” activities of the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). These activities relate to the development or amendment of international standards.</i></p> <p>The Action will comprise:</p>			
<p>a. Ensuring assurance practitioners and relevant users of assurance reports are aware of IAASB and IESBA due process documents and encouraging them to make submissions directly to the international boards and to the NZAuASB;</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Issue communiques when international documents issued • Organise consultation events as appropriate 	
<p>b. Responding, as appropriate, to IAASB and IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in conjunction with the Australian Auditing and Assurance Standards Board (AUASB) where appropriate;</p>		<ul style="list-style-type: none"> • Prepare comment letters • Liaise with AUASB in accordance with established protocol before letters finalised 	
<p>c. Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.</p>		<ul style="list-style-type: none"> • Participate in events in NZ or Australia (or elsewhere on an exceptional basis) 	

NZAuASB Action 1A.2: Maintaining New Zealand Auditing and Assurance Standards	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will amend the auditing and assurance standards (auditing standards, review engagement standards, other assurance standards) to ensure that the existing suites of standards are maintained on an on-going basis.</i></p> <p>The Action will comprise:</p>			
<p>a. Incorporating any auditing and assurance standards, or amendments to those standards, issued by the IAASB, to achieve convergence, and including working with the AUASB to ensure any changes are appropriately harmonised; and</p>	<p>Ongoing</p>	<ul style="list-style-type: none"> • Amend standards following due process as documents issued by IAASB • Liaise with AUASB in accordance with harmonisation process protocol 	
<p>b. Incorporating any professional and ethical standards for assurance practitioners, or amendments to those standards, issued by IESBA, including liaising with the Australian Professional Ethical Standards Board (APESB) to ensure any changes are appropriately harmonised.</p>		<ul style="list-style-type: none"> • Amend standards following due process as documents issued by IESBA • Interact with APESB staff and Chair as appropriate • Observe some APESB meetings to build relationships with staff and the Board • Develop harmonisation process protocol with APESB • Apply APESB harmonisation protocol 	

c. Respond as appropriate to any gaps /issues identified with the current suite of standards identified		<ul style="list-style-type: none"> Develop an appropriate response where such matters are identified. 	
NZAuASB Action 1A.3: Monitoring the Assurance Environment	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will monitor the wider assurance environment and consider the implications of any developing issues for New Zealand auditing and assurance standards.</i></p> <p>The Action will comprise:</p>			
a. Monitoring issues arising from the implementation of the current suite of standards and responding as appropriate;	Ongoing	<ul style="list-style-type: none"> Passive monitoring via media, public sources, and relationship contacts Monitor modified auditor reports and report half yearly to Board 	
b. Monitoring issues or gaps with the current suite of standards and responding as appropriate.	Ongoing	<ul style="list-style-type: none"> Take action as appropriate as matters arise during the year 	
c. Tracking local and international research projects and considering the implications for the New Zealand auditing and assurance standards;	Ongoing	<ul style="list-style-type: none"> Monitor projects 	
d. Monitoring results from QA reviews conducted locally and internationally and considering the implications for New Zealand auditing and assurance standards;	Ongoing	<ul style="list-style-type: none"> Director continue to observe FMA Audit Oversight Committee meetings Analyse results of QA reviews for standards issues. Liaise with FMA on 	

		reviews conducted. <ul style="list-style-type: none"> Report summary of QA findings to Board on quarterly basis 	
e. Contributing to government policy work relating to auditing and assurance standards	Ongoing	<ul style="list-style-type: none"> Interact with MBIE and other agencies as requested by them, or as identified as necessary 	

Specific Strategy 1: Address Critical Issues

NZAuASB Action 1B.2:	Timing	2017/18 Planned Actions	2017/18 Actual Actions
Developing an Assurance Standard on the Examination of Prospective financial information			
<i>The NZAuASB will develop an assurance standard for other assurance engagements involving the examination of prospective financial information.</i> This action will comprise:			
Developing the standard in accordance with the due process for domestic standards, ensuring harmonisation with the AUASB standard as appropriate.	Commence 2017/18 Complete 2018/19	<ul style="list-style-type: none"> Approve project plan and Commence development of standard in accordance with the agreed project plan 	
NZAuASB Action 1B.3: Developing an Auditing Standard on Auditing Service Performance Information	Timing	2017/18 Planned Actions	2017/18 Actual Actions

<p><i>The NZAuASB will develop an auditing standard on auditing service performance for Public Benefit Entities (PBEs).</i></p> <p>The Action will comprise:</p>			
Developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Whole year	<ul style="list-style-type: none"> Develop SSP audit standard for exposure September 2017 Issue standard 	
NZAuASB Action 1B.5: Developing guidance on the use of the XRB auditing and assurance standards and relative assurance products	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will develop guidance that explain the difference between reasonable and limited assurance, as well as various assurance products that are available, and relevant standards to use, how to deal with unclear assurance requirements, and the correct terminology to use when setting assurance requirements in legislation and/or policies.</i></p> <p>The action will comprise:</p>			
Developing appropriate guidance.	Whole year.	<ul style="list-style-type: none"> Complete guidance for policy makers and legislators by 30 Dec 2017 Develop further guidance in accordance with the approved project plan. Include guidance on website Promote the guidance 	
NZAuASB Action 1B.6: Developing a review standard on reviewing service performance information	Timing	2017/18 Planned Actions	2017/18 Actual Actions

<p><i>The NZAuASB will develop a review standard on reviewing service performance information for Public Benefit Entities (PBEs)</i></p> <p>The action will comprise:</p>			
Developing the standard in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Commence 2 nd half 2017-18 and complete 2018-19	<ul style="list-style-type: none"> Approve project plan and commence development of the engagement standard in accordance with the agreed project plan. 	
NZAuASB Action 1B.7: Developing an engagement standard/guidance for smaller NFPs	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will develop an an engagement standard/guidance for smaller NFPs not required to have an audit or a review to better meet the needs of users, as informed by research completed in 2016-17.</i></p> <p>The action will comprise:</p>			
Developing the standard/guidance in accordance with the due process for domestic standards and in collaboration with the AUASB as appropriate.	Commence 2 nd half of 2017-2018 and complete in 2018-2019	<ul style="list-style-type: none"> Approve project plan and commence development of the engagement standard/guidance in accordance with the agreed project plan 	
NZAuASB Action 1B.8: Developing guidance on the use of the Compliance Engagement Standard.	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will develop guidance to better explain the use of the Compliance Engagement Standard.</i></p> <p>The Action will comprise:</p>			

Developing the guidance in conjunction with the Office of the Auditor-General.	Whole year.	<ul style="list-style-type: none"> Approve project plan and develop Guidance on the Compliance Engagement Standard in accordance with the approved project plan, and in conjunction with the OAG. 	
NZAuASB Action 1B.9: Developing guidance or amending NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<i>The NZAuASB will consider developing guidance or amending NZ SRE 2410 for the new auditor reporting requirements.</i> This action will comprise:			
Deciding whether to amend the standard or to only develop guidance, similar to guidance developed by the AUASB. Amending the standard in accordance with the due process for domestic standards or developing guidance similar to the AUASB guidance.	Whole year.	<ul style="list-style-type: none"> Consider issues paper and decide whether to amend the standard, or to develop guidance. Approve the project plan and amend the standard and/or develop the guidance in accordance with the approved project plan 	

NZAuASB Action 1B.10: Consider developing guidance for Audit Committees, similar to the audit committee practice guide recently issued in Australia.	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will consider whether to develop guidance for Audit Committees, similar to the guidance recently issued in Australia.</i></p> <p>This action will comprise:</p>			
<p>Consider the guidance for Audit Committees recently published in Australia, and decide whether to develop similar guidance in New Zealand, in collaboration with other parties.</p>	<p>Commence 2nd half of 2017-2018 and complete in 2018-2019</p>	<ul style="list-style-type: none"> • Consider issues paper and decide whether to develop similar guidance for New Zealand. • If decide to develop similar guidance, approve the project plan. • Develop the guidance in accordance with the approved project plan. 	

Specific Strategy 2: Undertake User-Needs Research

NZAuASB Action 2.1 Researching Assurance Needs of Users of Non-Public Interest Entities Reports	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will research the assurance needs of users of assurance reports for entities that are not public interest entities (non-PIEs). The result of the research will be used as input into a future review of whether users' needs are appropriately met by the less stringent requirements for assurance for non-PIEs.</i></p> <p>This Action is an outsourced XRB Combined project and comprises:</p>			

a. Identifying the types of entities that make up the non-PIE population	Completed		
b. A literature review on user assurance needs for those types of entities	Completed		
c. An empirically-based analysis of the users of assurance reports of those types of entities and their assurance needs	to complete 1 st half 2017/18	<ul style="list-style-type: none"> To consider research findings and recommendations 	
NZAuASB Action 2.2: Obtaining a better understanding about the integrity of the application of ISAE (NZ) 3000(Revised)	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAUASB will complete its research to seek information about to what extent and how the XRB standards on assurance engagements are applied by assurance practitioners (including non-accountants) performing other assurance engagements in New Zealand. The results of the research will be used as a basis for considering enhancements to the NZAuASB's standards in the future, and to help inform efforts to influence the work of the international setting boards.</i></p> <p>The action comprises:</p>			
a. Identifying the types of assurance engagements other than audits and reviews, assurance practitioners conduct in New Zealand in accordance with or with reference to the XRB assurance standards	Completed 2016/17.		
b. Analysing to what extent and how the XRB assurance standards are applied, and whether they adequately address the assurance requirements.	To complete 1st half of 2017/18.	<ul style="list-style-type: none"> To consider research findings and recommendations 	

Specific Strategy 3: Influence the International Boards

NZAuASB Action 3.1: Building Relationships with the IAASB	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<i>The NZAuASB will seek to build and maintain relationships with IAASB members and staff.</i> The Action will comprise:			
a. Attending relevant meetings and events (including National Standard Setters meetings);	Ongoing	<ul style="list-style-type: none"> Director to attend IAASB meetings as Technical Assistant (TA) to Lyn Provost 	
b. Taking opportunities to meet with IAASB members and staff;		<ul style="list-style-type: none"> Interact with key staff and Chair as appropriate 	
c. Fostering relationships with Australasian representatives on the IAASB and those who are involved in relevant working groups;		<ul style="list-style-type: none"> Support Lyn Provost as IAASB member Invite Lyn Provost to Board meetings Establish Technical Advisory Group and arrange meetings to receive input before each IAASB meeting. Work with AUASB to influence international 	

		agenda.	
d. Hosting IAASB members and staff in visits to New Zealand as appropriate.		<ul style="list-style-type: none"> Host IAASB members and staff as appropriate 	
NZAuASB Action 3.2: Increasing the International Visibility of the NZAuASB	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will take advantage of opportunities to increase its visibility in the international arena so as to illustrate its ability to contribute to the work of the IAASB in a constructive and high quality way.</i></p> <p>The Action will comprise:</p>			
a. Volunteering to present at the NSS meetings on New Zealand projects or with the AUASB on joint projects; and	Ongoing	<ul style="list-style-type: none"> Identify possible topic to present on at NSS in Nov 2018 	
b. Identifying an appropriate, mutually beneficial IAASB project and contributing technical resources in support of that project.	Ongoing	<ul style="list-style-type: none"> Follow up discussions initiated with IAASB to support EER project. Contribute resources to other mutual beneficial projects as opportunities arise, for example AUPs and scalability of ISAs for SMEs 	
NZAuASB Action 3.3: Building Relationships with the IESBA	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will seek to build relationships with IESBA members and staff.</i></p> <p>The Action will comprise:</p>			

a. Attending relevant meetings and events (including NSS meetings);	Ongoing	<ul style="list-style-type: none"> Senior Project Manager to attend IESBA meeting in Dec 2017 	
b. Taking opportunities to meet with IESBA members and staff; and		<ul style="list-style-type: none"> Interact with key staff and Chair as appropriate Secondment of Senior Project Manager to IESBA during Dec and January. 	
c. Fostering relationships with Australian representatives on the IESBA.		<ul style="list-style-type: none"> Built relationship with Australian IESBA member – Invite to a NZAuASB meeting. 	

Specific Strategy 4: Enhance Constituency Engagement and Support

NZAuASB Action 4.1:	Timing	2017/18 Planned Actions	2017/18 Actual Actions
Enhancing Auditing and Assurance Standards Due Process Consultation			
<p><i>The NZAuASB will seek to enhance consultation with major assurance practitioners and user constituent groups on specific issues relating to the auditing and assurance standards, especially consultation relating to due process documents.</i></p> <p>The Action will comprise:</p>			
a. Identifying and implementing innovative, targeted consultation methods that are high value-added but relatively low-effort from the constituents' point of view; and	Ongoing	<ul style="list-style-type: none"> Continue current due process engagement methods Develop new communications & engagement approach that reflects different target groups Implement the XRB's 	

		communication strategy for social media when developed.	
b. Proactively engaging with relevant constituent groups about specific technical issues or matters being considered domestically or internationally.		<ul style="list-style-type: none"> • Present update on Auditing and Assurance standards • Promote other Topics as arise • Identify and engage with relevant groups about major new exposure drafts and standards. 	
NZAuASB Action 4.2: Undertaking On-Going Dialogue with Auditing and Assurance Standards Constituent Groups	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will undertake an on-going dialogue with relevant constituent groups across all sectors on general matters relating to auditing & assurance standards, including changes resulting from the evolving nature of the audit market.</i></p> <p>The Action will comprise:</p>			
a. Meeting with major constituent groups on a rolling basis as part of the NZAuASB's regular meetings;	Ongoing	<ul style="list-style-type: none"> • Organise 1-2 meetings • To target: <ul style="list-style-type: none"> - practitioners from firms - IoD representatives 	
b. Taking opportunities to meet with major constituent groups in other fora, including at events hosted by those groups; and	Ongoing	<ul style="list-style-type: none"> • Organise seminars & round tables • Attend other fora 	
c. Maintaining strong working relationships at the operational level with key constituent groups.	Ongoing	<ul style="list-style-type: none"> • Built relationships with key groups identified. 	
NZAuASB Action 4.3:	Timing	2017/18 Planned Actions	2017/18 Actual Actions

Improving Engagement Relating to Other Assurance Reports			
<p><i>The NZAuASB will seek to improve its engagement with assurance practitioners and (particularly) users of Other Assurance Reports (i.e. assurance engagements other than audits and reviews of historical financial statements).</i></p> <p>The Action will comprise:</p>			
a. Developing and maintaining a constituency database identifying these users and assurance practitioners;	Ongoing	<ul style="list-style-type: none"> Maintain database 	
b. Specifically targeting this group when consulting about relevant standards using customised communication approaches.	Whole of year	<ul style="list-style-type: none"> Run targeted communications where relevant 	
NZAuASB Action 4.4: Improving Engagement with Small Assurance Practitioners	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will seek to improve its engagement with assurance practitioners that are small firms and sole practitioners.</i></p> <p>The Action will comprise:</p>			
a. Developing and maintaining a constituency database identifying these assurance practitioners;	Ongoing	<ul style="list-style-type: none"> Maintain database 	
b. Specifically targeting this group when consulting about relevant standards using customised communication approaches.	Ongoing	<ul style="list-style-type: none"> Run targeted communications where relevant, for example webinars, speaking opportunities at SMP's in-house training, surveys. 	

		<ul style="list-style-type: none"> • Liaise with professional bodies and raise awareness at special interest group meetings. • Run targeted communications on the proposed changes to ISQC1. 	
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NZAuASB Action 4.5:	Timing	2017/18 Planned Actions	2017/18 Actual Actions
Promoting Understanding of Other Assurance Engagements			
<p><i>The NZAuASB will undertake activities to promote an increased understanding of the requirements of Other Assurance Standards and the engagements they apply to.</i></p> <p>The Action will comprise:</p>			
Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance practitioners and users about what comprises Other Assurance engagements and the standards that apply to those engagements.		<ul style="list-style-type: none"> • Promote guidance developed on the Compliance Engagement Standard • Prepare "Fact Sheet"/Guidance on other assurance engagements • Speaking engagements as opportunities arise • Targeted meetings with users 	

NZAuASB Action 4.6: Promoting Greater Understanding of the Purpose of Audits and Reviews	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will undertake activities to promote an increased understanding by assurance users of the purpose of audit and review engagements</i></p> <p>This Action will comprise:</p>			
a. Actively encourage, facilitate and support other relevant organisations to help them educate their members on the purpose of audit and review; and	Ongoing	<ul style="list-style-type: none"> • Liaise with Charity Services, CAANZ, CPA, IoD, RBNZ, Law Society. 	
b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate to help raise awareness of assurance users and those charged with governance in the general constituency about the purpose of audit and review engagements, with a particular emphasis on the NFP sector.	Ongoing	<ul style="list-style-type: none"> • Speaking engagements as opportunities arise • Journal Article for LawTalk Society • XRBrief article • Publish and Promote guidance developed 	
NZAuASB Action 4.7: Promoting Understanding of the New Auditor Reporting Requirements	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will undertake activities to promote an understanding of the IAASB's new auditor reporting requirements as they apply to New Zealand reporting entities.</i></p> <p>The Action will comprise:</p>			
a. Actively encourage, facilitate and support other relevant organisations where appropriate to help them ensure their members understand the new auditor reporting requirements; and	Whole of year	<ul style="list-style-type: none"> • Liaise with FMA, IoD, INFENZ, CAANZ (NZ), CPA, RBNZ and others. 	

b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate to help raise awareness of assurance users and those charged with governance about the new auditor reporting requirements.		<ul style="list-style-type: none"> • Speaking engagements as opportunities arise • Complete joint project with the FMA on the reporting of KAM, in accordance with the agreed project plan. 	
NZAuASB Action 4.8: Promoting Understanding of the new NOCLAR Requirements	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The NZAuASB will undertake activities to promote an understanding of the new NOCLAR requirements that apply to assurance practitioners.</i></p> <p>The action will comprise:</p>			
a. Actively encourage, facilitate and support other relevant organisations where appropriate to help them ensure their members understand the new NOCLAR reporting requirements; and	Whole of year	<ul style="list-style-type: none"> • Liaise with IOD about doing an awareness raising session as part of the director education series. 	
b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance users and those charged with governance about the new NOCLAR reporting requirements.		<ul style="list-style-type: none"> • Include topic in annual update presentations • Speaking engagements as opportunities arise • LawTalk article 	
NZAuASB Action 4.9: Promoting Understanding of the factors that Affect Audit Quality	Timing	2017/18 Planned Actions	2017/18 Actual Actions
<p><i>The focus of the NZAuASB's specific actions will be to work with other key organisations to enhance audit quality</i></p> <p>This action will comprise:</p>			

a. Actively encourage, facilitate and support other relevant organisations where appropriate to help them ensure their members understand the factors that affect audit quality, including the role of all participants in the external reporting supply chain;	Ongoing	<ul style="list-style-type: none"> Promote the audit quality framework as opportunities arise Liaise with IOD to do an awareness raising session as part of the director education series 	
b. Conducting seminars, presentations, speaking engagements and other awareness raising activities as appropriate that inform assurance users and those charged with governance about the factors that affect audit quality		<ul style="list-style-type: none"> Speaking engagements as opportunities arise XRBrief article Promote guidance developed. 	

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 6.1
Meeting date: 6 September 2017
Subject: Guidance on Compliance Engagements
Date: 23 August 2017
Prepared by: Peyman Momenan

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Agenda Item Objectives

For the Board to PROVIDE FEEDBACK on the matters identified in the issues paper in relation to the project to develop Guidance on Compliance Engagements.

Background

1. At the June meeting the Board noted, from discussions with staff from the Office of the Auditor -General (OAG), that there is a need for a document that provides an overview of the entire process of a compliance engagement, highlights its core principles and explains it in simple English. The OAG has also agreed to assist in developing such guidance for assurance practitioners.
2. The next step in this project is to agree the scope and outline of the guidance. The issues paper (Agenda item 6.2) includes the matters we have identified as relevant to determining the nature, scope and extent of this guidance.
3. We had further discussions with the OAG in relation to the guidance. The outcome of those discussions is presented in Agenda item 6.3.

Recommendations

4. We recommend that the Board:
 - CONSIDER the matters included in the issues paper; and
 - PROVIDE FEEDBACK about what should be included in the guidance.

Material Presented

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Issues Paper: Matters identified in relation to preparing guidance on compliance engagements.
Agenda item 6.3	Feedback received from the OAG

Issues paper

1. The purpose of this issues paper is to seek feedback from the NZAuASB:
 - a. On the nature, scope and extent of any guidance to be developed on compliance engagements;
 - b. Specific areas relevant to compliance engagements that may require additional guidance.
2. This issues paper discusses the alternative approaches we identified for developing guidance on compliance engagements. In addition, it identifies possible areas and topics specific to a compliance engagement that may require additional guidance. We have also sought feedback from the OAG about the content of the guidance. Their feedback is included in Agenda item 6.3

Nature, scope and extent of guidance on compliance engagements

3. Our work done to date in relation to the need for guidance about compliance engagements indicates that certain aspects of assurance practitioners' need for guidance is not driven by SAE 3100 (Revised) or unique to compliance engagements. These matters can be generally described as fundamentals of an assurance engagement as outlined by ISAE (NZ) 3000 (Revised) (i.e. indicating that the guidance may be more related to 3000 engagements more generally than to SAE 3100 (Revised) engagements.) This needs to be considered in determining the nature, scope and extent of any guidance to be developed on compliance engagements.
4. We have identified the following alternatives:
 - (a) A comprehensive implementation guide intended to help practitioners understand and efficiently apply SAE 3100 (Revised). Such a guide will need to provide guidance about ISAE (NZ) 3000 (Revised) first as SAE 3100 (Revised) is built on and requires compliance with ISAE (NZ) 3000 (Revised). Such guidance would cover basic concepts of any assurance engagement, not just compliance engagements.
 - (b) A high-level implementation guidance (similar to "at a glance" publications by the IAASB). This is essentially the same as (a) above but without detailed specifications and explanation.
 - (c) A topical guide covering a selection of topics unique to compliance engagements that may require additional guidance (similar to the IAASB staff practice alerts on specific topics).

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| <ol style="list-style-type: none">5. We seek feedback from the Board as to which alternative provides the most appropriate scope for the project. |
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Specific areas relevant to compliance engagements that may require additional guidance

6. At present, we have identified the following areas as topics that may require additional implementation guidance:
- (a) The nature of the underlying subject matter and the subject matter information of the compliance engagement (refer Appendix 1 for more information).
 - (b) Considering pre-conditions of a compliance engagement. Guidance about this topic is essentially guidance in relation to applying ISAE (NZ) 3000 (Revised). However, there may be some elements that are specifically applicable to a compliance engagement, e.g. specific relationship structures such as those engagements that are required by a regulator or supervising body (e.g. the FMA or the Electricity Authority and the likes).
 - (c) Types of assurance engagements (direct vs attestation) and levels of assurance (reasonable vs limited). This again will be guidance on ISAE (NZ) 3000 (Revised) rather than SAE 3100 (Revised).
 - (d) Guidance about a compliance framework, compliance activities and controls over compliance activities. SAE 3100 (Revised) has specific requirements in relation to understanding and evaluating key elements of a compliance framework but provides very little (if any) specification or guidance on a compliance framework and its elements. The same also applies to compliance activities.
 - (e) Guidance for applying the standard to assurance engagements of smaller entities (specially in terms of the requirements for understanding the compliance framework and compliance controls).
 - (f) Guidance on determining planning materiality specially if the compliance requirements are qualitative in nature. In ISAE (NZ) 3000 (Revised) materiality is a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful. Scoping an engagement on qualitative materiality may not be well understood by assurance practitioners specialising in financial statement audits (e.g. materiality for the subject matter information as a whole). However, this is unlikely to be unique to compliance engagements. Rather it is a significant issue on all assurance engagements with non-quantitative subject matter information. Guidance about materiality for assessing identified instances of non-compliance. Specially for compliance requirements that are qualitative and binary in nature as opposed to those with a quantitative nature.
 - (g) Guidance about the differences between obtaining an understanding of the compliance framework and its key elements in a limited assurance engagement and a reasonable assurance engagement.

- (h) Differences between compliance engagements undertaken by the auditor of the entity VS compliance engagements undertaken independently
- (i) Guidance on how to perform the risk assessment in a reasonable assurance engagement.
- (j) SAE 3100 (Revised) requires performance of additional procedures for “significant risks of non-compliance” but it does not elaborate on the nature of procedures that need to be performed.
- (k) Guidance about considering risk of fraud in a compliance engagement. For example, there may be a need for some more examples or indicators.

<p>7. We seek feedback from the Board as to which of the above items should be included in the guide. Are there any other key topics that are not identified here?</p>

Appendix 1:

A matter to consider in determining the need for guidance is the nature of the underlying subject matter and the subject matter information of the compliance engagement. One dimension for considering this is whether:

- a. the engagement objective is to ensure financial and/or non-financial data-information are prepared in compliance with their basis of preparation.
- b. the engagement objective is to ensure aspects of system/processes or behaviour are compliant with the compliance requirements.

A type “a” engagement is very similar to an audit of financial statements but a type “b” may be fundamentally different. Examples of type “a” engagements in New Zealand are engagements where a regulated entity is required to prepare specified information disclosure statements for a supervisor/regulator in accordance with a preparation criteria (e.g. preparation manual issued by the regulator, specific acts or determinations, industry rules etc) (Please refer Appendix 2 for some examples)). Examples of type “b” engagements are when an entity is required to comply with terms and conditions of an agreement or an operational standard (an example report from Australia is provided in Appendix 3).

One main implication of the nature of the subject matter is how an assurance practitioner can assess the preconditions for an assurance engagement, particularly the appropriateness of the subject matter and the suitability of criteria. For example, concluding whether an entity’s tax return is prepared in compliance with the Income Tax Act requirements for a tax return (a type “a” engagement) is different from concluding whether the entity is in compliance with the Income Tax Act (a type “b” engagement) in assessing the suitability of criteria and appropriateness of the subject matter.

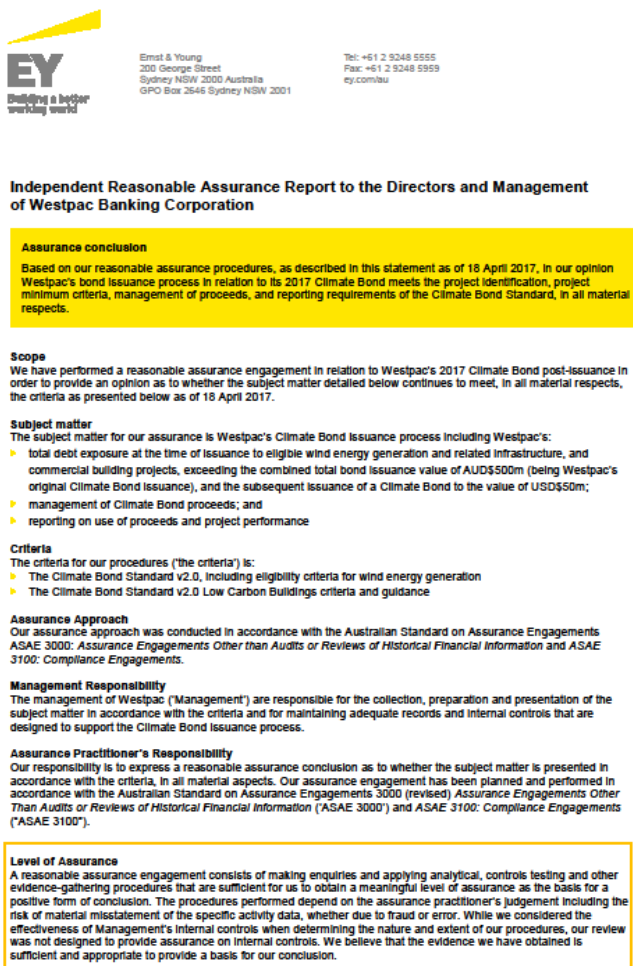
Appendix 2: Examples of compliance engagements over subject matter information that is information prepared in accordance with a preparation basis

Some examples of assurance engagements on whether financial and/or non-financial data-information is prepared in compliance with the applicable basis of preparation include:

- c. Specified Airport Services Information Disclosure requires NZ airports to disclose information about its aeronautical services in accordance with the Commerce Act (Specified Airport Services Information Disclosure) Determination 2010 ("Determination"). The Determination requires the disclosure of certain information, including: Annual disclosure of financial results and service quality ("Annual Disclosures"); land valuation reports prepared for the purposes of revaluing land ("Land revaluations") and fieldwork documentation pursuant to completion of the Report on Passenger Satisfaction Indicators set out in Schedule 14 of its Annual Disclosures ("ASQ Guidelines")
- d. Electricity Distribution Information Disclosure in accordance with the Electricity Distribution Disclosure Information Determination 2012 (and a similar disclosure requirement for gas companies). The determination includes input methodologies for asset valuation, cost allocation, regulatory tax treatment, the cost of capital, regulatory rules and processes, and matters relating to customised price-quality path proposals.
- e. The qualifying revenue information disclosure for Telecommunications companies prepared in accordance with "the Specified Information Instructions". These instructions provide guidance on what the specified information required under the applicable act includes and how it is to be presented.

Appendix 3: Example of a compliance engagement where the subject matter is not whether information is prepared in accordance with a preparation basis.

Please double click on the image below to see the full report.





NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 9 August 2017

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

FROM: Peyman Momenan

SUBJECT: Discussions with the OAG about the compliance engagements guide

We met with staff from the OAG to discuss the development of guidance for compliance engagements. A summary of the discussions is as follows:

The target audience of the guide:

1. Practitioners considering conducting a compliance engagement. It should be assumed that they know very little about other assurance engagement standards and associated terminology (e.g. suitable criteria, subject matter information etc). The language must be simple and clear, similar to a language that one may use to communicate with laypersons.
2. Someone who wants to engage a practitioner undertaking a compliance engagement.
3. Entities prescribing engagements that may need to be undertaken as compliance engagements.
4. Potentially, the users of assurance engagements.

The content of the guide:

The guide must be short and at a high level, in plain English and clear. The guide must cover such topics as:

5. What is a compliance engagement and why is it used?
6. Why a compliance engagement is requested? How the assurance report is expected to be used? By whom? What are the expectations from this engagement? Are these expectations consistent with what such an engagement can deliver?
7. What are the compliance requirements? Is evaluating compliance with these requirements simple and straight forward (like ticking items on a checklist) or complicated and open to interpretation? Does the assurance practitioner (or his firm) have the skill and experience required to perform such an evaluation? Does the engagement require engaging experts from different disciplines (e.g. accountants, lawyers, engineers, surveyors etc.)?
8. Does the intended user of assurance understand the nature of such evaluation? Its limitations? its level of objectivity? The fact that materiality judgements are involved?
9. Has the practitioner considered if his/her materiality judgements are consistent with the intended users' expectations? Have there been an appropriate level of communications between interested parties to ensure that there is a good understanding of materiality in undertaking the engagement?
10. What certain terms in the standard actually mean: compliance frameworks, compliance outcome, compliance activities.

Other matters

There were different opinions in relation to some other matters. E.g. whether such a guidance should explain the differences between direct and attestation engagements, pre-requirements of an assurance engagement.

It was also discussed that assurance practitioners may assume different evidence gathering approaches. For example, in compliance engagements over statutory disclosure statements for the Commerce Commission, some assurance practitioners assume an entirely substantive approach while others may consider the relevant internal controls. It is important to explain what is meant by compliance framework and relevant controls in SAE 3100.

It is important the prescribers of these engagements have a clear understanding of the above matters as well. There have been instances where the prescribers of these engagements have requested opinions to be stated in ways inconsistent with standards. For example, they asked the assurance practitioner to state that they information is complete and accurate without including the term “materially” or “in all significant manners”. Or they may have expected an opinion over a matter to be included in the auditor report where such a matter would have required performing a compliance engagement in addition to the audit of the financial statements.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 7.1
Meeting date: 6 September 2017
Subject: Structure of the Code – Revisions to PES 1
Date: 25 August 2017
Prepared by: Sharon Walker

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Agenda Item Objectives

1. The objective for this agenda item is:
 - To provide the Board with an update of the IESBA Structure Project, and the timeline for the NZ structure project.
 - For the Board to CONSIDER the proposed New Zealand changes to the close off text of Phase 1 to reflect New Zealand terminology and New Zealand compelling reason amendments previously made by the Board. The issues paper discusses further changes made.

Background

2. Two significant projects currently underway by the IESBA are the Structure project and the Safeguards project. The Structure project encompasses the entire Code. The intent of the IESBA 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. The IESBA has made significant effort to avoid inadvertent changes in the meaning of the Code and inadvertent reductions in requirements or other weakening of the Code.
3. The Structure project has been undertaken in two phases. Phase 1 of the project is complete with the IESBA agreeing in principle the new structure and drafting conventions for the Code and the text of Phase 1 of the Structure project at its December 2016 meeting. The IESBA does not intend to make changes to the Phase 1 agreed-in-principle text unless required to ensure consistency with the final text of Phase 2 of the Structure project.
4. Phase 1 of the Structure project addressed the following sections of the Code:
 - Table of contents
 - Guide to the Code (substantially new material)

- Part A, Introduction to the Code and Fundamental Principles (extant Code Part A)
 - Part C, Professional Accountants in Public Practice (Part of extant Code Part B)
 - C1, Independence for Audit and Review Engagements (extant Section 290 excluding the paragraphs concerning long association, non-assurance services, reports that include a restriction on use and distribution)
 - Glossary
5. Concurrently, with the Structure project, the IESBA undertook its Safeguards project. This project was also undertaken in two phases. Phase 1 of the Safeguards project proposed changes to Section 100, *Introduction and Fundamental Principles*, and Section 200, *Introduction (Part B – Professional Accountants in Public Practice)* of the extant Code. Phase 1 of both the Structure and Safeguards projects is now complete. The “agreed-in-principle” text at agenda item 7.3 represents the close off text of both these projects.
6. Phase 2 of the Structure project comprised the restructuring of the text of several IESBA projects representing the majority of the remainder of the extant Code that was not included in Phase 1:
- Proposed Restructured Text of Provisions in Part C of the Extant Code (Part 2- Professional Accountants in Business (Sections 200-270))
 - Proposed Restructured Text of the final NOCLAR Pronouncement, Responding to Non-compliance with Laws and Regulations (extant Sections 225 and 360, Responding to Non-compliance with Laws and Regulations¹)
 - Proposed Restructured Text of the Long Association (LA) Close-off Document² (Section 540, Long Association of Personnel (Including Partner Rotation) with an Audit Client; and Section 940, Long Association of Personnel with an Assurance Client)
 - Proposed Restructured text of the Provisions Addressing Restricted Use Reports³ (Section 800, Reports that Include a Restriction on Use and Distribution)
 - Proposed Restructured Text Relating to Independence–Other Assurance Engagements (Part 4B, except for material relating to the provision of non-assurance services to assurance clients)⁴
7. Phase 2 of the Safeguards project proposed changes to the Code pertaining to the provision of non-assurance services (NAS) to audit and other assurance clients in Sections 290 and 291

¹ In New Zealand, the NOCLAR provisions in Section 225 extend to all assurance engagements. Section 360 of the extant IESBA Code addresses NOCLAR for professional accountants in business.

² Revised provisions addressing long association in extant Sections 290 and 291, which the IESBA approved under the extant structure and drafting conventions in December 2016

³ Extant paragraphs 290.500 to 290.514, Reports that Include a Restriction on Use and Distribution

⁴ Extant Section 291, Independence – Other Assurance Engagements

of the extant Code⁵ as well as conforming amendments arising from the Safeguards project to other sections of the Code.

8. Exposure drafts of the proposed changes for both projects were issued for comment in January 2017 with submissions due in April 2017 for the Safeguards project and May for the Structure project.
9. At its June 2017 meeting, the IESBA received input from stakeholders on the phase 2 exposure draft of the Structure project, and considered the structure task force's initial analysis of that input.
10. Comments on the phase 2 exposure draft reflect widespread support for the direction of the project and the consistency of phase 2 with the phase 1 decisions. Some respondents commented that further improvements could or should be made. Respondents' suggestions covered wording changes intended to improve the clarity of language, increase consistency and/or avoid possible inadvertent changes in meaning. A number of comments on the phase 1 decisions and certain matters outside the scope of the project were also received.
11. The task force will further consider stakeholder and Board input and will present any proposed changes to the restructured text at the September 2017 meeting.
12. Various matters considered to be outside the scope of the structure project have been referred to another task force where appropriate or to the board for its attention.
13. In relation to the IESBA Safeguards project, the Board considered the significant comments received on exposure of phase 2 at its June meeting. The main topics discussed included: the permissibility of specific non-assurance services; extension of the prohibition of certain recruiting services to all entities; and the appropriateness of safeguards included in the Code.
14. The IESBA also considered feedback received from some respondents on certain matters it had agreed in principle in phase 1, including the descriptions of the concepts of a "reasonable and informed third party" and "acceptable level," and the use of the term "significance" in relation to identifying, evaluating, and addressing threats.
15. The IESBA will consider a first-read draft of the revised phase 2 text at its September 2017 meeting.
16. The timing of the NZ project is dependent on completion of the IESBA restructure project. The indicative timetable included in the Appendix has been updated to reflect the IESBA agenda for September. It is unclear at this stage whether the IESBA will achieve the proposed project completion date of December 2017.
17. Subject to restructuring work progressing as planned, the IESBA proposes that:
 - Parts 1, 2, 3 and 4B of the restructured Code⁶ be effective on June 15, 2019; and

⁵ Phase 2 of the Safeguards project includes revisions to the following paragraphs in the extant Code:

- 290.100–290.101, Application of the Conceptual Framework Approach to Independence.
- 290.154–290.214, Provision of Non-Assurance Services to an Audit Client.
- 291.138–291.148, Provision of Non-Assurance Services to an Assurance Client.

- Except for restructured Sections 540⁷ and 940⁸ as noted below, Part 4A be effective for audits of financial statements for periods beginning on or after June 15, 2019.

Early adoption will be permitted.

18. Subject to the long association transitional provision, the IESBA determined that:

- Section 540 be effective for audits of financial statements for periods beginning on or after December 15, 2018; and
- Section 940 be effective as of December 15, 2018.

Early adoption will be permitted.

NZ Project Time-line

19. The following table presents an indicative time-line for the NZ project to revise Professional and Ethical Standard 1.

Description	Proposed Date
NZAuASB to consider key issues relating to phase 1	September 2017
NZAuASB to consider key issues relating to phase 2 ⁹ and any further issues identified relating to phase 1	February 2018
First read draft of entire restructured NZ Code	February 2018
Approval of NZAuASB exposure draft	April 2018
Exposure draft open for comment	May – July 2018
Consideration of submissions	September 2018
Read and Approval of final standard	October 2018

⁶ The restructured Code contains the following:

- Part 1 –Complying with the Code, Fundamental Principles and Conceptual Framework
- Part 2– Professional Accountants in Business
- Part 3 – Professional Accountants in Public Practice
- International Independence Standards
 - Part 4A – Independence for Audits and Reviews
 - Part 4B – Independence for Other Assurance Engagements

⁷ Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*

⁸ Section 940, *Long Association of Personnel with an Assurance Client*

⁹ Key issues to consider include how to deal with the applicability of Part 2, *Professional Accountants in Business*, to assurance practitioners as discussed in agenda item 6.2 of the April 2017 NZAuASB meeting.

Matters for Consideration

20. The NZAuASB is asked to consider and provide comments on the proposed changes to the IESBA agreed-in-principle text for application in New Zealand.

Material Presented

Agenda item 7.1	Board Meeting Summary Paper
Agenda item 7.2	Issues Paper
Agenda item 7.3	NZ Marked Changes to Agreed-in-Principle Text

Work Stream	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018
Improving the structure of the Code – Phase 1	Approve close-off				Approve final	IESBA final document available (Jan/Feb)			
Improving the structure of the Code – Phase 2	Exposure Draft Structure ED-2		Update	Full review ED comments	Approve final	IESBA final document available (Jan/Feb)			
NZ Structure project		Issue IESBA Structure ED 2 in NZ					Approve NZ ED of the entire restructured Code (April 90 day comment)	Full review (September)	Approve final (October)
Safeguards Phase 1	Approve close-off				Approve final	IESBA final document available (Jan/Feb)			
Safeguards Phase 2	Safeguards ED 2 approved		Full review ED comments	1 st read post ED	Approve final	IESBA final document available (Jan/Feb)			
NZ Safeguards		Issue IESBA Safeguards ED 2 in NZ					Approve NZ ED of the entire restructured	Full review (September)	Approve final (October)

Work Stream	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018
							Code (April 90 day comment)		
IAASB Long Association	*Approve close-off - *Structure ED 2 approved			Full review ED comments	Approve final	IESBA final document available (Jan/Feb)			
NZ long Association – no NZ changes have been exposed		Issue IESBA Structure ED 2 in NZ	NZ Long Association ITC	Review comments and approve NZ Long Association provisions			Approve NZ ED of the entire restructured Code (April 90 day comment)	Full review (September)	Approve final (October)
IAASB NOCLAR	Structure ED 2			Full review ED comments	Approve final	IESBA final document available (Jan/Feb)			
NZ NOCLAR		Issue IESBA Structure ED 2 in NZ					Approve NZ ED of the entire restructured Code (April 90 day comment)	Full review (September)	Approve final (October)
Part C – Applicability	Applicability ED approved		Full review ED	1 st read post ED	Approve final	IESBA final document available			

Work Stream	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018
to PAPPs			comments			(Jan/Feb)			
NZ Applicability of Part C to PAPPs		Issue IESBA Applicability ED in NZ					Approve NZ ED of the entire restructured Code (April 90 day comment)	Full review (September)	Approve final (October)
Prof Scepticism & Prof Judgment				Full review ED comments	Approve final	IESBA final document available (Jan/Feb)			
NZ Prof Scepticism & Prof Judgment		Issue IESBA PS & PJ ED in NZ					Approve NZ ED of the entire restructured Code (April 90 day comment)	Full review (September)	Approve final (October)

Agenda Item 7.2: Issues Paper – Structure of the Code

1. The objective of the IESBA's Structure project is to restructure the *Code of Ethics for Professional Accountants* without changing its meaning. The following changes have been made to the wording of the close-off text of phase 1, as published by the IESBA in January 2017, to reflect New Zealand terminology and New Zealand compelling reason amendments made to extant Professional and Ethical Standard 1, *Code of Ethics for Assurance Practitioners*. (The changes are tracked in agenda item 7.3)
2. The title of the IESBA Code, *International Code of Ethics for Professional Accountants (including International Independence Standards)*, is amended to *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*. Retaining the word "international" in the title indicates that this is an international standard. Adding "New Zealand" to the title indicates that this is the New Zealand version.
3. Part 2, *Professional Accountants in Business*, and related references to Part 2, to professional accountants in business, or to the employing organisation have been removed throughout the Code as Professional and Ethical Standard 1 applies only to the provision of assurance services.
4. The term "professional accountant" is changed to "assurance practitioner". Professional and Ethical Standard 1 is intended to apply to all those who perform assurance engagements, even if they are not part of the accounting profession.
5. The "Guide to the Code" is amended to reflect the changes noted in paragraphs 1-3.
6. The title of Part 3, *Professional Accountants in Public Practice*, is amended to "*Application of the Code, Fundamental Principles and the Conceptual Framework*". As noted in paragraph 2, Professional and Ethical Standard 1 applies to assurance practitioners only in the provision of assurance services. The amendment to the title of Part 3 is consistent with the change made to extant Professional and Ethical Standard 1.
7. Consistent with extant Professional and Ethical Standard 1,
 - section 321, *Second Opinions*, of the IESBA Code is deleted.
 - References to "audit" are changed to "audit and/or review". Throughout the IESBA Code, "audit" is used as shorthand to refer to "audit or review".
8. The Preface to the IESBA Code has been changed to reflect the application of the Code in New Zealand. The Preface wording is based on extant Professional and Ethical Standard 1, amended as necessary to reflect the new wording conventions used when discussing safeguards.
9. A New Zealand Scope and Application section has been added, based on the wording of

extant Professional and Ethical Standard 1.

10. References to current or applicable “technical and professional standards” are changed to “standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board” as in extant Professional and Ethical Standard 1.

Opinion or Conclusion?

11. For purposes of restructured Part 4A, the independence standards for reviews and audits, we distinguish between an audit engagement and a review engagement, whereas the International Code uses “audit” to mean audit and/or review. This is consistent with extant Professional and Ethical Standard 1. However, when referring to the expression of an opinion, extant Professional and Ethical Standard 1 is not amended to distinguish between the expression of an audit opinion or a review conclusion. Instead reference is made only to the expression of opinion. In the wording for the restructured, it is proposed to amend the wording to expression of opinion or conclusion. See, for example, paragraph R400.31 of agenda item 7.3

12. Summary of terminology changes

IESBA terminology	PES1 terminology
Professional accountant (in public practice) or accountant	Assurance practitioner
Audit	Audit and/or review
Listed entity	FMC reporting entity considered to have a higher level of public accountability
Auditor	Assurance practitioner (when the term auditor is intended to apply to both audit and review engagements).
Audit opinion	Audit opinion or review conclusion
Key audit partner	Key audit or assurance partner

13. Does the NZAuASB agree with the changes that have been made, noted above in paragraphs 2-12, in particular, the change to audit opinion or review conclusion?

Disposition of NZ paragraphs in PES1

14. NZ paragraphs included in extant Professional and Ethical Standard 1 that relate to the close-off text of Phase 1 of the IESBA Code have been included at the following locations:

Extant reference	Wording	New reference
NZ140.7.1	The circumstances in paragraph 114.2 A1 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.	NZ 114.2 A1.1
NZ290.11.1	When 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 reduce them to an acceptable level in aggregate	NZ R400.12.1
NZ220.10.1	When the assurance practitioner determines that the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary, the assurance practitioner shall <ul style="list-style-type: none"> (a) Disclose the nature of the conflict of interest and how any threats created were addressed to clients affected by the conflict of interest; and (b) When safeguards are applied to address the threat, obtain consent of the affected clients to perform the professional services. 	NZ R310.9.1 NOTE: revised wording differs from extant PES1
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.	NZ R310.12 NOTE: replaces paragraphs R310.12, 310.12 A1 and R310.13 which are deleted

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.	NZ R330.6 NOTE: replaces paragraphs 330.6 A1, 330.7 A1 and 330.8 A1
NZ290.1.1	Part 4A also applies to 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.	NZ400.2.1
NZ290.215.1	When actions that might be safeguards are not available or cannot eliminate the threats created by the firm's dependence on fees charged to the audit or review client or reduce them to an acceptable level, the firm shall decline or withdraw from the engagement	NZ R410.5 NOTE: wording amended from extant to follow new construct re safeguards.
NZ290.144	Self-review and self-interest threats are created if a partner or employee of the firm or a network firm serves as a director or officer of an audit or review client, or as a liquidator or receiver of an audit or review client.	NZ 523.2
NZ290.11	A partner or employee of the firm or a network firm shall not serve as a director, officer, liquidator or receiver of an audit or review client of the firm.	NZ R523.4 NOTE: R523.4 is amended by NZ R523.4
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:	Glossary

	<ul style="list-style-type: none"> • Any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE₂ Accounting Requirements in accordance with XRB A1₃. 	
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15. Does the Board tentatively agree with the suggested locations of NZ paragraphs?

AGREED-IN-PRINCIPLE TEXT – STRUCTURE AND SAFEGUARDS PHASE 1

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Commented [SW1]: Part 2 is not applicable to assurance practitioners in the provision of assurance services.

GUIDE TO THE CODE

(This Guide is a non-authoritative aid to using the Code.)⁴

Purpose of the Code

1. ~~The International Professional and Ethical Standard 1, International Code of Ethics for Professional Accountants~~Assurance Practitioners (including International Independence Standards) ~~(New Zealand)~~ ("the Code") sets out fundamental principles of ethics for ~~professional accountants~~assurance practitioners, reflecting the profession's recognition of its public interest responsibilities. The fundamental principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.
2. The Code provides a conceptual framework that ~~professional accountants~~assurance practitioners are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. The Code sets out requirements and application material on various topics to help ~~accountants~~assurance practitioners apply the conceptual framework to those topics.
3. In the case of audits, reviews and other assurance engagements, the Code sets out *International Independence Standards*, established by the application of the conceptual framework to these engagements.

Commented [SW2]: In the NZ Code, we refer to assurance practitioners rather than professional accountants.

How the Code is Structured

4. The Code contains the following material:
 - Part 1 – *Complying with the Code, Fundamental Principles and Conceptual Framework*, which includes the fundamental principles and the conceptual framework ~~and is applicable to all professional accountants~~.
 - ~~[Part 2 – Professional Accountants in Business deleted by the NZAuASB], which sets out additional material that applies to professional accountants in business when performing professional activities. Professional Accountants in Business include professional accountants employed, engaged or contracted in an executive or non-executive capacity in, for example:~~
 - ~~• Commerce, industry or service.~~
 - ~~• The public sector.~~
 - ~~• Education.~~
 - ~~• The not-for-profit sector.~~
 - ~~• Regulatory or professional bodies.~~
 - Professional accountants in public practice might also find Part 2 relevant to their particular circumstances.⁵
 - Part 3 – ~~Professional Accountants in Public Practice~~Application of the Code, Fundamental Principles and Conceptual Framework, which sets out additional material that applies to

Commented [SW3]: This wording is consistent with extant PES 1 (Revised). Our mandate applies only to assurance practitioners.

⁴—The Guide is a new feature and was included in the body of the Code in Structure ED-1. In response to feedback from respondents to Structure ED-1, the Guide has been repositioned.

⁵—This sentence might be subject to further revision as a result of the IESBA's Revision of Part C project, in particular, the final text of the proposals set out in the January 2017 Exposure Draft, *Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice (Applicability ED)*.

~~professional accountants~~ [assurance practitioners](#) in public practice when providing professional services.

- *International Independence Standards*, which sets out additional material that applies to ~~professional accountants~~ [assurance practitioners](#) in public practice when providing assurance services, as follows:
 - Part 4A – *Independence for Audits and Reviews*, which applies when performing audit or review engagements.
 - Part 4B – *Independence for Other Assurance Engagements*, which applies when performing assurance engagements that are not audit or review engagements.

The Code contains sections which address specific topics. Some sections contain subsections dealing with specific aspects of those topics.

The *Glossary* contains defined terms (together with additional explanations where appropriate) and described terms which have a specific meaning in certain parts of the Code. ~~For example, as noted in the Glossary, in Part 4A, the term “audit engagements” refers to both audit and review engagements.~~

5. Each section of the Code is structured, where appropriate, as follows:

- Introduction – sets out the subject matter addressed within the section, and introduces the requirements and application material in the context of the conceptual framework.
- Requirements – establish general and specific obligations with respect to the subject matter addressed.
- Application material – provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance to assist in complying with the requirements.

How to Use the Code

6. The Code requires an ~~an assurance practitioner~~ ~~professional accountant~~ to comply with the fundamental principles of professional ethics for ~~professional accountants~~ [assurance practitioners](#). ~~Professional accountants include professional accountants in business and professional accountants in public practice.~~
7. All of the requirements and application material are to be read and applied in the context of complying with the fundamental principles, applying the conceptual framework and being independent when performing audit, review and other assurance engagements.
8. Proper application of a particular section of the Code requires knowledge and understanding of the relevant section and the entire text of Part 1. The requirements and application material set out in any subsection are to be read in conjunction with the requirements and application material set out in the section of which the subsection is a part.

Requirements

9. Requirements are designated with an “R” and, in most cases, include the word “shall.” The word “shall” in the Code imposes an obligation on an ~~an assurance practitioner~~ ~~professional accountant~~ or firm to comply with the specific provision in which “shall” has been used.

Commented [SW4]: This example is not relevant in NZ. In Part 4A, we refer to both audit and review engagements.

Commented [SW5]: This sentence is not relevant as the NZ Code does not apply to PAIBs.

10. In some situations the Code provides a specific exception to a requirement. In such a situation, the provision is designated with an “R” but uses “may” or conditional wording.
11. When the word “may” is used in the Code it denotes permission to take a particular action in certain circumstances, including as an exception to a requirement. When the word “might” is used in the Code it denotes the possibility of a matter arising, an event occurring or a course of action being taken.

Application Material

12. In addition to requirements, the Code contains application material that provides context relevant to a proper understanding of the Code. In particular, the application material is intended to help [an assurance practitioner](#) ~~professional accountant~~ to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework. Application material is designated with an “A.”
13. Where application material includes lists of examples, these lists are not intended to be exhaustive.

Appendix

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COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK
(SECTIONS 100 TO 199)

PART 2
PROFESSIONAL ACCOUNTANTS IN BUSINESS
~~(SECTIONS 200 TO 299)~~ **DELETED BY THE NZAuASB**

PART 3
PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE
APPLICATION OF THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK
(SECTIONS 300 TO 399)

INTERNATIONAL INDEPENDENCE STANDARDS
(PARTS 4A AND 4B)
PART 4A – **INDEPENDENCE FOR AUDITS AND REVIEWS**
(SECTIONS 400 TO 899)
PART 4B – **INDEPENDENCE FOR OTHER ASSURANCE ENGAGEMENTS**
(SECTIONS 900 TO 999)

GLOSSARY ~~(ALL PROFESSIONAL ACCOUNTANTS)~~

INTERNATIONAL CODE OF ETHICS FOR ~~PROFESSIONAL ASSURANCE~~ ~~PRACTITIONERS~~ACCOUNTANTS

(including INTERNATIONAL INDEPENDENCE STANDARDS) ~~(NEW ZEALAND)~~

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⁶Placeholder for proposals in Structure ED-2.

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PREFACE

The IESBA develops and issues, under its own standard setting authority, the *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("the Code"). The Code is for use by professional accountants around the world. The IESBA establishes the Code for international application following due process.

Commented [IESBA6]: Preface

The International Federation of Accountants (IFAC) establishes separate requirements for its member bodies with respect to the Code. Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, ("the Code"), issued by the NZAuASB is based on Part 1 and Part 3 of the International Code of Ethics for Professional Accountants (including International Independence Standards, issued by the International Ethics Standards Board for Accountants, published by the International Federation of Accountants (IFAC) and used with permission of IFAC, as it applies to assurance practitioners. New Zealand additions and deletions are prefixed with NZ in the Code.

Commented [SW7]: Preface wording based on extant PES 1, amended as necessary to reflect new wording convention re safeguards.

The Code is based on a number of fundamental principles that express the basic tenets of professional and ethical behaviour and conduct. Assurance practitioners must abide by these fundamental principles when performing assurance engagements.

The Independence requirements set out in the Code apply to all entities and all assurance practitioners. Small entities and small firms, in certain circumstances, may face difficulties implementing the requirements, especially the independence requirements covered in Part 4A and Part 4B. Many of the safeguards discussed as being available, within either the entity or the assurance practice, will not be available to small entities and small firms. Further, the actions provided as examples of safeguards that might address a threat may not be effective for small firms and no other effective actions may be available. For example, involving individuals within the firm who are not members of the assurance team in, for example, providing non-assurance services to an assurance client, may not reduce the threats to independence given the likely closeness of relationships of staff within small firms.

Small entities are unlikely to have the resources or the need to operate detailed corporate governance mechanisms such as audit committees. Small firms may not have the resources or the need to develop and maintain detailed internal policies and procedures to identify and evaluate threats to independence, or the ability to access independent assurance practitioners to review work undertaken. In some cases, the costs of the appropriate actions to create safeguards will not be significant. In other cases, achieving satisfactory actions to create safeguards will not be possible without significant cost.

In the case of a small firm, as applies to all other firms, if the fundamental principles are threatened and no alternative actions to create safeguards can be identified, the assurance practitioner or firm shall terminate or decline the engagement.

NEW ZEALAND SCOPE AND APPLICATION

NZ1.1 The Code is effective from [date] and supersedes Professional and Ethical Standard 1 (Revised), Code of Ethics for Assurance Practitioners, issued by the XRB in January 2013. Early adoption of the Code is permitted.

NZ1.2 The Code is intended to apply to all those who perform assurance engagements, even if they are not part of the accountancy profession. The Code makes reference to the accounting profession to establish a benchmark and is not intended to exclude assurance practitioners that are not part of the accountancy profession. Some professions may have requirements and guidance that differ from those contained in the Code. Assurance practitioners from other professions, including any person or organisation appointed or engaged to perform assurance engagements, need to be aware of these differences and comply with the more stringent requirements and guidance.

NZ1.3 The Code is not intended to detract from responsibilities which may be imposed by law or regulation.

NZ1.4 In applying the requirements outlined in the Code, assurance practitioners shall be guided not merely by the words, but also by the spirit of the Code.

Commented [SW8]: Based on extant PES 1 NZ Scope and Application

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PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

Section 100

Complying with the Code

100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. ~~An assurance practitioner's professional accountant's~~ responsibility is not exclusively to satisfy the needs of an individual client ~~or employing organization~~. Therefore, the Code contains requirements and application material to enable ~~accountants~~ assurance practitioners to meet their responsibility to act in the public interest.

Commented [IESBA9]: 100.1

Commented [SW10]: Because the NZ Code deals only with assurance practitioners in their assurance role, references to employment have been removed.

100.2 The requirements in the Code, designated with an "R," impose obligations. Application material, designated with an "A," provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application material is intended to help ~~an assurance practitioner professional accountant~~ to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.

Commented [IESBA11]: New paragraph

R100.3 ~~An assurance practitioner professional accountant~~ shall comply with the Code. There might be circumstances when laws or regulations preclude an ~~accountant assurance practitioner~~ from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the ~~accountant assurance practitioner~~ shall comply with all other parts of the Code.

Commented [IESBA12]: 100.1

100.3 A1 The principle of professional behaviour requires an ~~assurance practitioner professional accountant~~ to comply with relevant laws and regulations. ~~Some jurisdictions might have requirements and guidance that differ from or go beyond those set out in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent requirements and guidance unless prohibited by laws or regulations.~~

Commented [IESBA13]: Preface

100.3 A2 ~~An assurance practitioner professional accountant~~ might encounter unusual circumstances in which the ~~accountant assurance practitioner~~ believes that the result of applying a specific requirement of the Code would be disproportionate or might not be in the public interest. In those circumstances, the ~~accountant assurance practitioner~~ is encouraged to consult with a professional body or a regulator.

Commented [SW14]: Consistent with extant PES1, we do not propose to include this wording in the Code.

Does the Board agree that this wording is not necessary in the NZ context?

Commented [IESBA15]: 100.11

R100.4 Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of Parts 4A and 4B, respectively. ~~An assurance practitioner professional accountant~~ who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the ~~assurance practitioner's accountant's~~ ability to comply with the fundamental principles. The ~~accountant assurance practitioner~~ shall also:

Commented [IESBA16]: 100.10

(a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and

(b) Determine whether to report the breach to the relevant parties.

100.4 A1 ~~Relevant parties~~ to whom such a breach might be reported include those who might have been affected by it, a professional body, a regulator or an oversight authority.

Commented [IESBA17]: 100.10

AGREED-IN-PRINCIPLE TEXT – STRUCTURE AND SAFEGUARDS PHASE 1

Section 110

The Fundamental Principles

110.1 There are five fundamental principles of ethics for ~~professional accountants~~ assurance practitioners:

Commented [IESBA18]: 100.5

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – not to compromise professional or business judgments because of bias, conflict of interest or undue influence of others.
- (c) Professional Competence and Due Care – to:
 - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client ~~or employing organization~~ receives competent professional assurance services, based on current standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board ~~technical and professional standards~~ and relevant legislation; and
 - (ii) Act diligently and in accordance with the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board ~~applicable technical and professional standards~~.
- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
- (e) Professional Behaviour – to comply with relevant laws and regulations and avoid any conduct that the ~~professional accountant~~ assurance practitioner knows or should know might discredit the profession.

Commented [SW19]: Throughout extant PES1, the phrase “technical and professional standards” is replaced with this “standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board”

R110.2 ~~An assurance practitioner~~ professional accountant shall comply with each of the fundamental principles.

Commented [IESBA20]: NOCLAR

Commented [IESBA21]: 100.5

110.2 A1 The fundamental principles of professional ethics set out in the Code establish the standard of behaviour expected of an assurance practitioner ~~professional accountant~~. The conceptual framework establishes the approach which all ~~accountants~~ assurance practitioners are required to apply to assist them in achieving compliance with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

Commented [IESBA22]: 100.2, last sentence of 100.5

110.3 A1 ~~An assurance practitioner~~ professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the ~~accountant~~ assurance practitioner might consider consulting, on an anonymous basis if necessary, with:

Commented [IESBA23]: 100.19, 100.20, 100.21

- Others within the firm ~~or employing organization~~.
- Those charged with governance.
- A professional body.
- A regulator.
- Legal counsel.

However, such consultation does not relieve the ~~assurance practitioner~~ from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law, disassociate from the matter creating the conflict.

Commented [IESBA24]: NOCLAR

110.3 A2 The ~~assurance practitioner~~ professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

Commented [IESBA25]: 100.22

Subsection 111 – Integrity

R111.1 An ~~assurance practitioner~~ professional accountant shall comply with the principle of integrity which requires an ~~assurance practitioner~~ to be straightforward and honest in all professional and business relationships.

Commented [IESBA26]: 110.1

111.1 A1 Integrity implies fair dealing and truthfulness.

Commented [IESBA27]: 110.1

R111.2 An ~~assurance practitioner~~ professional accountant shall not knowingly be associated with reports, returns, communications or other information where the ~~assurance practitioner~~ believes that the information:

Commented [IESBA28]: 110.2

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided recklessly; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.

111.2 A1 If an ~~assurance practitioner~~ professional accountant provides a modified report in respect of such a report, return, communication or other information, the ~~assurance practitioner~~ accountant is not in breach of paragraph R111.2.

Commented [IESBA29]: 110.3

R111.3 When an ~~assurance practitioner~~ professional accountant becomes aware of having been associated with information described in paragraph R111.2, the ~~assurance practitioner~~ accountant shall take steps to be disassociated from that information.

Commented [IESBA30]: 110.2

Subsection 112 – Objectivity

R112.1 An ~~assurance practitioner~~ professional accountant shall comply with the principle of objectivity, which requires an ~~assurance practitioner~~ accountant not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others.

Commented [IESBA31]: 120.1

R112.2 An ~~assurance practitioner~~ professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the ~~assurance practitioner~~ accountant's professional judgment regarding that activity.

Commented [IESBA32]: 120.2, 280.4

Subsection 113 – Professional Competence and Due Care

R113.1 An ~~assurance practitioner~~ professional accountant shall comply with the principle of professional competence and due care which requires an ~~assurance practitioner~~ accountant to:

Commented [IESBA33]: 130.1

- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional assurance service, based on standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board current technical and professional standards and relevant legislation; and

(b) Act diligently and in accordance with [the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board](#) applicable technical and professional standards.

113.1 A1 ~~Serving clients~~ ~~and employing organization~~ with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.

Commented [IESBA34]: 130.2

113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables an [assurance practitioner](#) ~~professional accountant~~ to develop and maintain the capabilities to perform competently within the ~~professional~~ [assurance](#) environment.

Commented [IESBA35]: 130.3

113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

Commented [IESBA36]: 130.4

R113.2 In complying with the principle of professional competence and due care, an [assurance practitioner](#) ~~professional accountant~~ shall take reasonable steps to ensure that those working in a professional capacity under the [assurance practitioner's](#) ~~accountant's~~ authority have appropriate training and supervision.

Commented [IESBA37]: 130.5

R113.3 Where appropriate, an [assurance practitioner](#) ~~professional accountant~~ shall make clients, ~~employing organization~~, or other users of the [assurance practitioner's](#) ~~assurance accountant's~~ ~~professional services or activities~~, aware of the limitations inherent in the services ~~or activities~~.

Commented [IESBA38]: 130.6

Commented [SW39]: Removal of "activities" here is consistent with extant PES1. Activities relate to employment.

Subsection 114 – Confidentiality

R114.1 An [assurance practitioner](#) ~~professional accountant~~ shall comply with the principle of confidentiality which requires an [assurance practitioner](#) ~~accountant~~ to respect the confidentiality of information acquired as a result of professional and business relationships. An [assurance practitioner](#) ~~accountant~~ shall:

Commented [IESBA40]: 140.1

(a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate an immediate or a close family member;

Commented [IESBA41]: 140.2

(b) Maintain confidentiality of information within the firm ~~or employing organization~~;

Commented [IESBA42]: 140.4

(c) Maintain confidentiality of information disclosed by a prospective ~~client or employing organization~~;

Commented [IESBA43]: 140.3

(d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm ~~or employing organization~~ without proper and specific authority, unless there is a legal or professional duty or right to disclose;

Commented [IESBA44]: 140.1(a)

(e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the [assurance practitioner](#) ~~accountant~~ or for the advantage of a third party;

Commented [IESBA45]: 140.1(b)

(f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after the business or personal relationship has ended; and

Commented [IESBA46]: 140.6

(g) Take reasonable steps to ensure that personnel under the assurance practitioner's control, and individuals from whom advice and assistance is obtained, respect the assurance practitioner's duty of confidentiality.

Commented [IESBA47]: 140.5

R114.2 An assurance practitioner shall continue to comply with the principle of confidentiality even after the end of the relationship between the assurance practitioner and a client ~~or employing organization~~. When ~~changing employment or~~ acquiring a new client, the assurance practitioner is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

Commented [IESBA48]: 140.6

114.2 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the assurance practitioner's client ~~or employing organization~~ to the assurance practitioner in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances when assurance practitioners are or might be required to disclose confidential information or when such disclosure might be appropriate:

Commented [IESBA49]: 140.7, NOCLAR

- (a) Disclosure is required by law, for example:
 - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light;
- (b) Disclosure is permitted by law and is authorized by the client ~~or the employing organization~~; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
 - (i) To comply with the quality review of a professional body;
 - (ii) To respond to an inquiry or investigation by a professional or regulatory body;
 - (iii) To protect the professional interests of an assurance practitioner in legal proceedings; or
 - (iv) To comply with technical and professional standards, including ethics requirements.

Commented [IESBA50]: NOCLAR

NZ 114.2 A1.1 The circumstances in paragraph 114.2 A1 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.

Commented [SW51]: NZ paragraph from extant PES1 NZ140.7.1

114.2 A2 In deciding whether to disclose confidential information factors to consider, depending on the circumstances, include:

Commented [IESBA52]: 140.8

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client ~~or employer~~ consents to the disclosure of information by the assurance practitioner.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
 - Unsubstantiated facts.

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- Incomplete information.
- Unsubstantiated conclusions.
- The proposed type of communication, and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.

Subsection 115 – Professional Behaviour

R115.1 An ~~assurance practitioner-professional accountant~~ shall comply with the principle of professional behaviour which requires an ~~assurance practitioner accountant~~ to comply with relevant laws and regulations and avoid any conduct that the ~~assurance practitioner accountant~~ knows or should know might discredit the profession. An ~~assurance practitioner-professional accountant~~ shall not knowingly engage in any ~~assurance engagement business, occupation or activity~~ that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles.

Commented [IESBA53]: 150.1, 200.2, NOCLAR

115.1 A1 Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

Commented [IESBA54]: 150.1, NOCLAR

R115.2 When undertaking marketing or promotional activities, an ~~assurance practitioner-professional accountant~~ shall not bring the profession into disrepute. An ~~assurance practitioner-professional accountant~~ shall be honest and truthful and shall not make:

Commented [IESBA55]: 150.2, 250.2

(a) Exaggerated claims for the services offered by, or the qualifications or experience of, the ~~accountant~~~~assurance practitioner~~; or

(b) Disparaging references or unsubstantiated comparisons to the work of others.

115.2 A1 If an ~~assurance practitioner-professional accountant~~ is in doubt about whether a form of advertising or marketing is appropriate, the ~~assurance practitioner accountant~~ is encouraged to consult with the relevant professional body.

Commented [IESBA56]: 250.2

Section 120

The Conceptual Framework

Introduction

120.1 The circumstances in which ~~professional accountants~~ assurance practitioners operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist assurance practitioners ~~accountants~~ in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodates the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition they deter an assurance practitioner ~~accountant~~ from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.

Commented [IESBA57]: 100.6

120.2 The conceptual framework specifies an approach for the ~~professional accountant~~ assurance practitioner to:

Commented [IESBA58]: 100.6, 100.2

- (a) Identify threats to compliance with the fundamental principles;
- (b) Evaluate the threats identified; and
- (c) Address the threats by eliminating or reducing them to an acceptable level.

Requirements and Application Material

R120.3 The ~~assurance practitioner~~ professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.

Commented [IESBA59]: Derived from 100.2, 100.6, 100.7

120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:

Commented [IESBA60]: 100.3, 100.15

~~(a) Part 2 – Professional Accountants in Business;~~

~~(b)~~ (a) Part 3 – *Professional Accountants Application of The Code, Fundamental Principles and the Conceptual Framework in Public Practice*; and

~~(c)~~ (b) *International Independence Standards*, as follows:

- (i) Part 4A – *Independence for Audits and Reviews*; and
- (ii) Part 4B – *Independence for Other Assurance Engagements*.

[Paragraphs R120.4–120.4 A1 are reserved for proposed requirement and application material in the January 2017 Applicability ED]

R120.5 When applying the conceptual framework, the ~~professional assurance practitioner~~ accountant shall:

- (a) Exercise professional judgment;
- (b) Remain alert for new information and to changes in facts and circumstances; and
- (c) Use the reasonable and informed third party test as described in paragraph 120.5 A1.

Commented [IESBA61]: 100.2, 100.7, 290.7

Commented [IESBA62]: Derived from 220.6, 310.6

Commented [IESBA63]: 100.7

Reasonable and Informed Third Party

120.5 A1 The reasonable and informed third party test is a consideration by the [professional accountant/assurance practitioner](#) about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the [accountant/assurance practitioner](#) knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an [accountant/assurance practitioner](#), but would possess the relevant knowledge and experience, to understand and evaluate the appropriateness of the [accountant's/assurance practitioner's](#) conclusions in an impartial manner.

Commented [IESBA64]: 100.7, 100.8

Identifying Threats

R120.6 The [professional accountant/assurance practitioner](#) shall identify threats to compliance with the fundamental principles.

Commented [IESBA65]: Derived from 100.6, 290.1

120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the [professional accountant's/assurance practitioner's](#) identification of threats to such compliance. Certain conditions, policies and procedures established by the profession, legislation, regulation, [or the firm, or the employing organization](#) that can enhance the [accountant/assurance practitioner](#) acting ethically, might also impact the identification of threats to compliance with the fundamental principles.

Commented [IESBA66]: 100.8, 100.16

120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements [and work assignments](#) might differ and, consequently, different types of threats might be created.

Commented [IESBA67]: 100.6, 100.12

120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

Commented [IESBA68]: 100.12

- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence an [assurance practitioner's](#) [professional accountant's](#) judgement or behaviour;
- (b) Self-review threat – the threat that an [assurance practitioner](#) [professional accountant](#) will not appropriately evaluate the results of a previous judgement made; or an activity performed by the [accountant/assurance practitioner](#), or by another individual within the [accountant's/assurance practitioner's firm or employing organization](#), on which the [assurance practitioner](#) [accountant](#) will rely when forming a judgement as part of performing a current activity;
- (c) Advocacy threat – the threat that an [assurance practitioner](#) [professional accountant](#) will promote a client's [or employer's](#) position to the point that the [assurance practitioner's](#) [accountant's](#) objectivity is compromised;
- (d) Familiarity threat – the threat that due to a long or close relationship with a client, [or employer](#), an [assurance practitioner](#) [professional accountant](#) will be too sympathetic to their interests or too accepting of their work; and
- (e) Intimidation threat – the threat that an [assurance practitioner](#) [professional accountant](#) will be deterred from acting objectively because of actual or perceived pressures,

including attempts to exercise undue influence over the [assurance practitioner](#)~~accountant~~.

- 120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Commented [IESBA69]: 100.12

Evaluating Threats

- R120.7 When the [assurance practitioner](#)~~professional accountant~~ identifies a threat to compliance with the fundamental principles, the [accountant](#)~~assurance practitioner~~ shall evaluate whether such a threat is at an acceptable level.

Commented [IESBA70]: Derived from 100.6, 100.8

- 120.7 A1 The consideration of qualitative as well as quantitative factors is relevant to the [assurance practitioner's](#)~~professional accountant's~~ evaluation of threats, as is the combined effect of multiple threats, if applicable.

Commented [IESBA71]: 100.9, 290.11

- 120.7 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also impact the [assurance practitioner's](#)~~accountant's~~ evaluation of the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

Commented [IESBA72]: 100.13, 100.14, 100.16, 200.9, 200.11, 200.12

- Corporate governance requirements.
- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the [professional accountant](#)~~assurance practitioner~~ and the general public to draw attention to unethical behavior.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Acceptable Level

- 120.8 A1 An acceptable level is a level at which a [professional accountant](#)~~assurance practitioner~~ using the reasonable and informed third party test would likely conclude that the [assurance practitioner](#)~~accountant~~ complies with the fundamental principles.

Commented [IESBA73]: Glossary

Consideration of New Information or Changes in Facts and Circumstances

- R120.9 If the [professional accountant](#)~~assurance practitioner~~ becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the [accountant](#)~~assurance practitioner~~ shall re-evaluate and address that threat accordingly.

Commented [IESBA74]: 290.10

- 120.9 A1 Remaining alert throughout the professional activity assists the [assurance practitioner](#)~~professional accountant~~ in determining whether new information has emerged or changes in facts and circumstances have occurred that:

Commented [IESBA75]: New paragraph

- (a) Impact the level of a threat; or
- (b) Affect the [assurance practitioner's](#)~~accountant's~~ conclusions about whether safeguards applied continue to be appropriate to address identified threats.

- 120.9 A2 If new information results in the identification of a new threat, the [professional accountant](#)~~assurance practitioner~~ is required to evaluate and, as appropriate, address this

Commented [IESBA76]: Derived from 290.10

threat (Ref: Paras. R120.7 and R120.10).

Addressing Threats

R120.10 If the ~~assurance practitioner professional accountant~~ determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the ~~accountant~~ ~~assurance practitioner~~ shall address the threats by eliminating them or reducing them to an acceptable level. The ~~assurance practitioner accountant~~ shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied; or
- (c) Declining or ending the specific professional activity.

Safeguards

120.10 A1 Safeguards are actions, individually or in combination, that the ~~professional accountant~~ ~~assurance practitioner~~ takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Actions to Eliminate Threats

120.10 A2 There are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the level of the threat to an acceptable level.

Consideration of Significant Judgements Made and Overall Conclusions Reached

R120.11 The ~~assurance practitioner professional accountant~~ shall form an overall conclusion about whether the actions that the ~~assurance practitioner accountant~~ takes, or intends to take to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the ~~assurance practitioner accountant~~ shall:

- (a) Review any significant judgements made or conclusions reached; and
- (b) Use the reasonable and informed third party test.

Considerations for Audits, Reviews and Other Assurance Engagements

120.12 A1 ~~Assurance practitioners Professional accountants in public practice~~ are required to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an ~~audit review~~ or assurance team member's integrity, objectivity or professional skepticism has been compromised.

Commented [IESBA77]: New paragraph

Commented [IESBA78]: 100.9, 100.13

Commented [IESBA79]: New paragraph

Commented [IESBA80]: New paragraph

Commented [IESBA81]: First two sentences are new

Commented [IESBA82]: 290.6

Commented [SW83]: Throughout the IESBA Code, audit is used to mean "audit or review". Consistent with NZ policy to refer separately to audit and review engagements, "review" is added.

While audit team or review team is encompassed by the term assurance team, in this instance, assurance team refers to other assurance services.

120.12 A2 Parts 4A and 4B of the Code comprise the *International Independence Standards*. Parts 4A and 4B set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. ~~Professional accountants~~ Assurance practitioners and firms are required to comply with these standards in order to be independent, when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence.

Commented [IESBA84]: 290.1, 290.7

PART 2 – ~~PROFESSIONAL ACCOUNTANTS IN BUSINESS~~[deleted by the NZAuASB]

~~[Placeholder for the restructured provisions for professional accountants in business that form part of Structure ED-2.]~~

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PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE APPLICATION OF THE CODE, FUNDAMENTAL PRINCIPLES AND THE CONCEPTUAL FRAMEWORK

Section 300

Applying the Conceptual Framework—Professional Accountants in Public Practice

Introduction

300.1 This Part of the Code describes requirements and application material for ~~professional accountants~~ assurance practitioners in public practice when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by ~~professional accountants~~ assurance practitioners in public practice, which create or might create threats to compliance with the fundamental principles. Therefore, ~~professional accountants~~ assurance practitioners in public practice are required to be alert for such facts and circumstances.

Commented [IESBA85]: 200.1

300.2 The requirements and application material that apply to ~~professional accountants in public practice~~ assurance practitioners are set out as follows:

Commented [IESBA86]: 100.3, 100.15, 290.1

- Part 3 – ~~Professional Accountants in Public Practice~~ Application of The Code, Fundamental Principles and the Conceptual Framework, Sections 300 to 399, applies to all ~~assurance practitioners~~ professional accountants in public practice when providing, ~~whether they provide~~ assurance services ~~or not~~.
- ~~International Independence Standards~~ as follows:
 - Part 4A – ~~Independence for Audits and Reviews~~, Sections 400 to 899, applies to ~~professional accountants in public practice~~ assurance practitioners when performing audit and review engagements.
 - Part 4B – ~~Independence for Other Assurance Engagements~~, Sections 900 to 999, applies to ~~professional accountants in public practice~~ assurance practitioners when performing assurance engagements other than audit and review engagements.

300.3 In this Part, the term “~~professional accountant~~ assurance practitioner” refers to ~~professional accountants in public practice~~ assurance practitioners and their firms.

Commented [IESBA87]: New paragraph

Requirements and Application Material

R300.4 An ~~assurance practitioner—professional accountant~~ shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

Commented [IESBA88]: New paragraph

[Paragraphs R300.5–300.5 A1 are reserved for proposed requirement and application material in the Applicability ED]

Identifying Threats

300.6 A1 Compliance with the fundamental principles might be threatened by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.5 A3. The following are examples of facts and circumstances within each of those categories of threats that might

Commented [IESBA89]: 200.1, 200.2, 200.4, 200.6, 200.7, 200.8

create threats for an assurance practitioner ~~professional accountant~~ when undertaking a professional service:

(a) Self-interest Threats

- An assurance practitioner ~~professional accountant~~ having a direct financial interest in a client.
- An assurance practitioner ~~professional accountant~~ quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- An assurance practitioner ~~professional accountant~~ having a close business relationship with a client.
- An assurance practitioner ~~professional accountant~~ having access to confidential information that might be used for personal gain.
- An assurance practitioner ~~professional accountant~~ discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.

(b) Self-review Threats

- An assurance practitioner ~~professional accountant~~ issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- An assurance practitioner ~~professional accountant~~ having prepared the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- An assurance practitioner ~~professional accountant~~ promoting the interests of, or shares in, a client.
- An assurance practitioner ~~professional accountant~~ acting as an advocate on behalf of a client in litigation or disputes with third parties.
- An assurance practitioner ~~professional accountant~~ lobbying in favour of legislation on behalf of a client.

(d) Familiarity Threats

- An assurance practitioner ~~professional accountant~~ having a close or immediate family member who is a director or officer of the client.
- A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
- An audit team member having a long association with the audit client.

(e) Intimidation Threats

- An [assurance practitioner](#) ~~—professional accountant~~ being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- An [assurance practitioner](#) ~~professional accountant~~ feeling pressured to agree with the judgement of a client because the client has more expertise on the matter in question.
- An [assurance practitioner](#) ~~professional accountant~~ being informed that a planned promotion will not occur unless the [accountant-assurance practitioner](#) agrees with an inappropriate accounting treatment.
- An [assurance practitioner](#) ~~professional accountant~~ having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Evaluating Threats

300.7A1 **Conditions, policies and** procedures as described in 120.6 A1 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level. Such conditions, policies and procedures might relate to:

- The client and its operating environment; and
- The firm and its operating environment.

300.7 A2 The [assurance practitioner's professional accountant's](#) evaluation of the level of a threat is also impacted by the nature **and** scope of the professional service.

The Client and its Operating Environment

300.7 A3 **The [assurance practitioner's professional accountant's](#)** evaluation of the level of a threat might be impacted by whether the client is:

- An audit client and whether the audit client is a public interest entity;
- An assurance client that is not an audit client; or
- A non-assurance client.

For example, providing a non-assurance service to an audit client that is a public interest entity, might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the audit.

300.7 A4 **The corporate governance** structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, a [n assurance practitioner's professional accountant's](#) evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate persons other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.

Commented [IESBA90]: Derived from 200.11

Commented [IESBA91]: 200.10, 200.11

Commented [IESBA92]: 200.3, 200.11

Commented [IESBA93]: 200.15

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- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

The Firm and its Operating Environment

300.7 A5 ~~An assurance practitioner's professional accountant's~~ evaluation of the level of a threat might be impacted by the work environment within a firm and its operating environment. For example:

Commented [IESBA94]: 100.14

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.
- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

Consideration of New Information or Changes in Facts and Circumstances

300.7 A6 ~~New information or~~ changes in facts and circumstances might:

Commented [IESBA95]: New paragraph

- (a) Impact the level of a threat; or
- (b) Affect the ~~assurance practitioner's professional accountant's~~ conclusions about whether safeguards applied –continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the ~~assurance practitioner professional accountant~~ re-evaluate and address the threats accordingly (Ref: Paras. R120.9 and R120.10).

300.7 A7 ~~Examples of new~~ information or changes in facts and circumstances that might impact the level of a threat include:

Commented [IESBA96]: New paragraph

- When the scope of a professional service is expanded.
- When the client becomes a listed entity or acquires another business unit.
- When the firm merges with another firm.
- When the ~~assurance practitioner professional accountant~~ is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the ~~assurance practitioner's professional accountant's~~ personal or immediate family relationships.

Addressing Threats

Examples of Safeguards

300.8 A1 Section 120 sets out requirements and application material for addressing threats. Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an [assurance practitioner](#) ~~professional accountant~~ who was not a member of the team review the work performed or advise as necessary might address self-review threats.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review and familiarity threats.
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy or familiarity threats.
- Disclosing to clients any referral fees or commission arrangements received for recommending services or products might address self-interest and advocacy threats.
- Separation of teams when dealing with matters of a confidential nature might address self-interest threats.

Commented [IESBA97]: 200.13

Communicating with Those Charged with Governance

R300.9 When communicating with those charged with governance in accordance with the Code, an [assurance practitioner](#) ~~professional accountant~~ shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the [assurance practitioner](#) ~~accountant~~ communicates with a subgroup of those charged with governance, the ~~accountant~~ [assurance practitioner](#) shall determine whether communication with all of those charged with governance is also necessary.

Commented [IESBA98]: 100.25

300.9 A1 In determining with whom to communicate, an [assurance practitioner](#) ~~professional accountant~~ might consider:

Commented [IESBA99]: 100.25

- The nature and importance of the circumstances; and
- The matter to be communicated.

300.9 A2 If an [assurance practitioner](#) ~~professional accountant~~ communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, communication with all of those charged with governance might also be necessary to ensure they are adequately informed.

Commented [IESBA100]: 100.25

R300.10 If an [assurance practitioner](#) ~~professional accountant~~ communicates with individuals who have management responsibilities as well as governance responsibilities, the [assurance practitioner](#) ~~accountant~~ shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the ~~accountant~~ [assurance practitioner](#) would otherwise communicate.

Commented [IESBA101]: 100.26 NOCLAR

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300.10 A1 In some circumstances, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters do not need to be communicated again with those same person(s) in their governance role.

Commented [IESBA102]: 100.26 NOCLAR

Section 310

Conflicts of Interest

Introduction

310.1 ~~Assurance practitioners~~ ~~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.

Commented [IESBA103]: New paragraph

310.2 A conflict of interest creates a threat to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. ~~Such threats~~ might be created when:

Commented [IESBA104]: 220.1

- (a) ~~An assurance practitioner–professional accountant~~ provides a professional service related to a particular matter for two or more ~~assurance~~ clients whose interests with respect to that matter are in conflict; or
- (b) The interests of an ~~assurance practitioner–professional accountant~~ with respect to a particular matter and the interests of the ~~assurance~~ client for whom the ~~assurance practitioner accountant~~ provides a professional service related to that matter are in conflict.

310.3 Section 310 sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. ~~When an assurance practitioner professional accountant~~ provides an audit, review or other assurance service, independence is also required in accordance with ~~International Independence Standards~~.

Commented [IESBA105]: 220.1

Requirements and Application Material

General

R310.4 ~~An assurance practitioner–professional accountant~~ shall not allow a conflict of interest to compromise professional or business judgement.

Commented [IESBA106]: 220.1

310.4 A1 ~~Examples of~~ circumstances that might create a conflict of interest include:

Commented [IESBA107]: 220.2

- Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that might be relevant to the transaction.
- Providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
- Providing services to a seller and a buyer in relation to the same transaction.
- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.
- Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership.
- In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.

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- Advising a client to invest in a business in which, for example, the spouse of the ~~professional accountant~~ assurance practitioner has a financial interest.
- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
- Advising a client on acquiring a business which the firm is also interested in acquiring.
- Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

Conflict Identification

R310.5 Before accepting a new client relationship, engagement, or business relationship, an assurance practitioner ~~professional accountant~~ shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

Commented [IESBA108]: 220.6, 220.3

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The service and its implication for relevant parties.

310.5 A1 An effective conflict identification process assists an assurance practitioner ~~professional accountant~~ when taking reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. Such a process includes considering matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the assurance practitioner ~~accountant~~ being able to address threats created by the conflict of interest.

310.5 A2 An effective process to identify actual or potential conflicts of interest will take into account factors such as:

Commented [IESBA109]: 220.7

- The nature of the professional services provided.
- The size of the firm.
- The size and nature of the client base.
- The structure of the firm, for example, the number and geographic location of offices.

310.5 A3 More information on client acceptance is set out in Section 320, *Professional Appointments*.

Commented [IESBA110]: New paragraph

R310.6 An assurance practitioner ~~professional accountant~~ shall remain alert to changes over time in the nature of services, interests and relationships that might create a conflict of interest during an engagement.

Commented [IESBA111]: 220.6

310.6 A1 The nature of services, interests and relationships might change during the engagement. This is particularly true when an assurance practitioner ~~professional accountant~~ is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the assurance practitioner ~~accountant~~ initially might not be involved in a dispute.

Commented [IESBA112]: 220.6

Network Firms

R310.7 If the firm is a member of a network, an assurance practitioner ~~professional accountant~~ shall consider conflicts of interest that the assurance practitioner ~~accountant~~ has reason to believe

Commented [IESBA113]: 220.8

might exist or arise due to interests and relationships of a network firm.

310.7 A1 Factors to consider when identifying interests and relationships involving a network firm include:

- The nature of the professional services provided.
- The clients served by the network.
- The geographic locations of all relevant parties.

Commented [IESBA114]: 220.8

Applying the Conceptual Framework to Threats Created by Conflicts of Interest

310.8 A1 In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more likely that the level of the threat is not at an acceptable level.

Commented [IESBA115]: 220.3, 220.9

310.8 A2 Factors that are relevant in evaluating the level of any threats created by conflicts of interest include measures that prevent unauthorized disclosure of confidential information, when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict, including:

- The existence of separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas.
- Policies and procedures to limit access to client files.
- Confidentiality agreements signed by personnel and partners of the firm.
- Separating confidential information physically and electronically.

310.8 A3 Examples of actions that might be safeguards to address threats created by conflicts of interest include:

Commented [IESBA116]: 220.10

- Having separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
- Having an assurance practitioner ~~professional accountant~~ who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.

Disclosure and Consent

R310.9 An assurance practitioner ~~professional accountant~~ shall exercise professional judgment to determine whether the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary when addressing the threat created by the conflict of interest.

Commented [IESBA117]: 220.11

310.9 A1 When determining whether specific disclosure and explicit consent are necessary, applying the conceptual framework requires the ~~assurance practitioner professional accountant~~ to exercise professional judgment and consider all the circumstances that create a conflict of interest. Factors to consider include:

Commented [IESBA118]: 220.11

- (a) The parties that might be affected.
- (b) The nature of the issues that might arise.

(c) The potential for the particular matter to develop in an unexpected manner.

310.9 A2 **Disclosure and** consent might take different forms, for example:

- General disclosure to clients of circumstances where, as is common commercial practice, the ~~professional accountant~~ assurance practitioner does not provide professional services exclusively to any one client (for example, in a particular professional service and market sector) in order for the client to provide general consent accordingly. For example, an assurance practitioner accountant might make general disclosure in the standard terms and conditions for the engagement.
- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances and a comprehensive explanation of any planned safeguards and the risks involved.
- Consent might be implied by clients' conduct in circumstances where the assurance practitioner ~~professional accountant~~ 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.

Commented [IESBA119]: 220.11

310.9 A3 **It is generally necessary:**

~~To disclose the nature of the conflict of interest and how any threats created were addressed to clients affected by a conflict of interest; and~~

~~When safeguards are applied to address the threat, to obtain consent of the affected clients to perform the professional services. [Amended by the NZAuASB. Refer to NZ R310.9.1]~~

NZ R310.9.1 Where the assurance practitioner determines that the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary, the assurance practitioner shall

- (a) Disclose the nature of the conflict of interest and how any threats created were addressed to clients affected by the conflict of interest; and
- (b) When safeguards are applied to address the threat, obtain consent of the affected clients to perform the professional services.

Commented [IESBA120]: 220.11

310.9 A4 **If such disclosure** or consent is not in writing, the assurance practitioner ~~professional accountant~~ is encouraged to document:

- (a) The nature of the circumstances giving rise to the conflict of interest;
- (b) The safeguards applied to address the threats; and
- (c) The consent obtained.

Commented [SW121]: Extant PES1 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.

Commented [IESBA122]: 220.13

R310.10 **If an** assurance practitioner ~~professional accountant~~ has determined that explicit consent is necessary in accordance with paragraph R310.9 and the client has refused to provide consent, the assurance practitioner ~~accountant~~ shall either:

- (a) End or decline to perform professional services that would result in the conflict of interest; or

Commented [IESBA123]: 220.12

- (b) End relevant relationships, or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

Confidentiality

R310.11 ~~An assurance practitioner professional accountant~~ shall remain alert to the principle of confidentiality including when making disclosures or sharing information within the firm or network and seeking guidance from third parties.

Commented [IESBA124]: 220.4

310.11 A1 Subsection 114, sets out requirements and application material relevant to threats to compliance with the principle of confidentiality that might be created in such a situation.

Commented [IESBA125]: 220.4

R310.12 ~~When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:~~

Commented [IESBA126]: 220.14

~~The firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter;~~

~~Specific measures are in place to prevent disclosure of confidential information between the engagement teams serving the two clients; and~~

~~The firm is satisfied that a reasonable and informed third party would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the professional service would produce a disproportionate adverse outcome for the clients or other relevant third parties. [Deleted by the NZAuASB. Refer to NZ R310.12].~~

NZ R310.12 ~~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.~~

Commented [SW127]: Extant PES1 NZ220.14

310.12 A1 ~~A breach of confidentiality might arise, for example, when seeking consent to perform:~~

Commented [IESBA128]: 220.14

~~A transaction-related service for a client in a hostile takeover of another client of the firm.~~

~~A forensic investigation for a client regarding a suspected fraud, where the firm has confidential information from its work for another client who might be involved in the fraud. [Deleted by the NZAuASB. Refer to NZ R310.12]~~

R310.13 ~~In the circumstances set out in paragraph R310.12, the professional accountant shall document:~~

Commented [IESBA129]: 220.14

~~The nature of the circumstances, including the role that the accountant is to undertake;~~

~~The specific measures in place to prevent disclosure of information between the engagement teams serving the two clients; and~~

~~Why it is appropriate to accept the engagement. [Deleted by the NZAuASB. Refer to NZ R310.12]~~

Section 320

Professional Appointments

Introduction

- 320.1 [Assurance practitioners](#) [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.
- 320.2 The acceptance of a new client or engagement or changes in circumstances in an existing engagement might create self-interest threats.
- 320.3 Section 320 sets out specific requirements and application material relevant to applying the conceptual framework to professional appointments.

Commented [IESBA130]: New paragraph

Commented [IESBA131]: 210.1 NOCLAR

Commented [IESBA132]: New paragraph

Requirements and Application Material

Client and Engagement Acceptance

- 320.4 A1 In some circumstances, acceptance of a new client relationship might create threats to compliance with the principles of integrity or professional behavior. This might arise, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such threats include client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behavior.
- 320.4 A2 Factors that are relevant in evaluating the level of any threat created by accepting a new client include:
- Knowledge and understanding of the client, its owners, management and those charged with governance and business activities.
 - The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.
- 320.5 A1 A self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.
- 320.5 A2 Factors that are relevant in evaluating the level of any threat created by accepting a new engagement include:
- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
 - Knowledge of relevant industries or subject matters.
 - Experience with relevant regulatory or reporting requirements.
 - The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.

Commented [IESBA133]: 210.1, NOCLAR

Commented [IESBA134]: 210.2 NOCLAR

Commented [IESBA135]: 210.6 extant, 210.5 NOCLAR

Commented [IESBA136]: 210.7 extant, 210.6 NOCLAR

320.5 A3 Examples of actions that might be safeguards to address threats created by accepting a new engagement include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

Commented [IESBA137]: 210.7, NOCLAR

Changes in a Professional Appointment

R320.6 An ~~assurance practitioner~~ ~~professional accountant~~ shall determine whether there are any reasons for not accepting an engagement when the ~~accountant~~ ~~assurance practitioner~~:

- Is asked by a potential client to replace another ~~accountant~~ ~~assurance practitioner~~;
- Considers tendering for an engagement held by another ~~accountant~~ ~~assurance practitioner~~; or
- Considers undertaking work that is complementary or additional to that of another ~~accountant~~ ~~assurance practitioner~~.

Commented [IESBA138]: 210.9, NOCLAR

Commented [IESBA139]: 210.9, NOCLAR

Commented [IESBA140]: 210.12 extant, 210.11 NOCLAR

320.6 A1 There might be reasons for not accepting an engagement. One such reason might be if the facts and circumstances that create any threats cannot be addressed by applying safeguards. For example, there might be a threat to compliance with the principle of professional competence and due care if an ~~assurance practitioner~~ ~~professional accountant~~ accepts the engagement before knowing all the relevant facts.

Commented [IESBA141]: 210.9 NOCLAR

320.6 A2 If an ~~assurance practitioner~~ ~~professional accountant~~ is asked to undertake work that is complementary or additional to the work of an existing or predecessor ~~accountant~~ ~~assurance practitioner~~, threats to compliance with the principle of professional competence and due care might be created, for example, as a result of incomplete information.

Commented [IESBA142]: 210.12, NOCLAR

320.6 A3 A factor that is relevant in evaluating the level of any threats created by changes in appointments is whether tenders state that, before accepting the engagement, contact with the existing or predecessor ~~accountant~~ ~~assurance practitioner~~ will be requested. This contact gives the proposed ~~accountant~~ ~~assurance practitioner~~ the opportunity to ~~en~~ inquire whether there are any reasons why the engagement should not be accepted.

Commented [IESBA143]: 210.11, NOCLAR

320.6 A4 Examples of actions that might be safeguards to address threats created by changes in professional appointments include:

Commented [IESBA144]: 210.11, NOCLAR

- Asking the existing or predecessor ~~assurance practitioner~~ ~~accountant~~ to provide any known information which, in the existing or predecessor ~~accountant's~~ ~~assurance practitioner's~~ opinion, the proposed ~~accountant~~ ~~assurance practitioner~~ needs to be aware before deciding whether to accept the engagement. For example, the apparent reasons for the change in appointment might not fully reflect the facts and might indicate disagreements with the existing or predecessor ~~accountant~~ ~~assurance practitioner~~ that might influence the decision to accept the appointment.
- Obtaining information from other sources such as through inquiries of third parties or background investigations regarding senior management or those charged with governance of the client.

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320.7 A1 A proposed ~~accountant-assurance practitioner~~ will usually need the client's permission, preferably in writing, to initiate discussions with the existing or predecessor ~~accountant-assurance practitioner~~.

R320.8 If unable to communicate with the existing or predecessor ~~accountant-assurance practitioner~~, the proposed ~~accountant-assurance practitioner~~ shall take other reasonable steps to obtain information about any possible threats.

R320.9 When an existing or predecessor ~~accountant-assurance practitioner~~ is asked to respond to a communication from a proposed ~~accountant-assurance practitioner~~, the existing or predecessor ~~accountant-assurance practitioner~~ shall:

- (a) Comply with relevant laws and regulations governing the request; and
- (a) Provide any information honestly and unambiguously.

320.9 A1 An existing or predecessor ~~accountant-assurance practitioner~~ is bound by confidentiality. Whether the existing or predecessor ~~accountant-assurance practitioner~~ is permitted or required to discuss the affairs of a client with a proposed ~~accountant-assurance practitioner~~ will depend on the nature of the engagement and:

- (a) Whether the existing or predecessor ~~accountant-assurance practitioner~~ has permission from the client for the discussion; and
- (b) The legal and ethical requirements relating to such communications and disclosure, which might vary by jurisdiction.

320.9 A2 Circumstances where an ~~assurance practitioner professional-accountant~~ is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 114.2 A1 of the Code.

Changes in Audit or Review Appointments

R320.10 In the case of an audit or review of financial statements, a ~~n assurance practitioner professional-accountant~~ shall request the existing or predecessor ~~accountant-assurance practitioner~~ to provide known information regarding any facts or other information of which, in the existing or predecessor ~~accountant's-assurance practitioner's~~ opinion, the proposed ~~accountant-assurance practitioner~~ needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving identified or suspected non-compliance with laws and regulations set out in paragraphs R360.21 and R360.22:

- (a) If the client consents to the existing or predecessor ~~accountant-assurance practitioner~~ disclosing any such facts or other information, the existing or predecessor ~~accountant-assurance practitioner~~ shall provide the information honestly and unambiguously; and
- (b) If the client fails or refuses to grant the existing or predecessor ~~accountant-assurance practitioner~~ permission to discuss the client's affairs with the proposed ~~accountant-assurance practitioner~~, the existing or predecessor ~~accountant-assurance practitioner~~ shall disclose this fact to the proposed ~~accountant-assurance practitioner~~, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

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Commented [IESBA146]: 210.14, NOCLAR

Commented [IESBA147]: 210.13, NOCLAR

Commented [IESBA148]: 210.13, NOCLAR

Commented [IESBA149]: 210.14, NOCLAR

Commented [SW150]: NOCLAR references may change once NZ NOCLAR provisions have been redrafted in phase 2.

Client and Engagement Continuance

R320.11 For a recurring client engagement, an [assurance practitioner](#) ~~professional accountant~~ shall periodically review whether to continue with the engagement.

Commented [IESBA151]: 210.5, 210.4 NOCLAR

320.11 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, if they were known earlier, would have caused the ~~professional accountant~~ [assurance practitioner](#) to decline the engagement. For example, such a threat might be created by improper earnings management or balance sheet valuations.

Commented [IESBA152]: 210.4 NOCLAR

Using the Work of an Expert

R320.12 When an [assurance practitioner](#) ~~professional accountant~~ intends to use the work of an expert, the ~~accountant~~ [assurance practitioner](#) shall determine whether the use is warranted.

Commented [IESBA153]: 210.8, NOCLAR

320.12 A1 Factors to consider when an [assurance practitioner](#) ~~professional accountant~~ intends to use the work of an expert include the reputation and expertise of the expert, the resources available to the expert, and the [applicable standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board](#). ~~professional and ethics standards applicable to the expert~~. This information might be gained from prior association with the expert or from consulting others.

Commented [IESBA154]: 210.8, NOCLAR

Section 321 [section deleted by the NZAuASB]

Second Opinions

Introduction

- 321.1 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.
- 321.2 Providing a second opinion to an entity that is not an existing client might create self-interest or other threats. For example, there might be a threat to compliance with the principle of professional competence and due care if the second opinion is not based on the same facts that the existing or predecessor accountant had, or is based on inadequate evidence.
- 321.3 Section 321 sets out specific requirements and application material relevant to applying the conceptual framework to providing a second opinion.

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Requirements and Application Material

General

- 321.4 A professional accountant might be 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.
- R321.5** If an entity seeking a second opinion from a professional accountant will not permit the accountant to communicate with the existing or predecessor accountant, the accountant shall determine whether the accountant may provide the second opinion sought.
- 321.5.A1 Factors that are relevant in evaluating the level of a threat created by providing a second opinion to an entity that are not an existing client is the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.
- 321.5.A2 Examples of actions that might be safeguards to address the threats created by providing a second opinion include:
- With the client's permission, obtaining information from the existing or predecessor accountant.
 - Describing the limitations surrounding any opinion in communications with the client.
 - Providing the existing or predecessor accountant with a copy of the opinion.

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Commented [IESBA159]: 230.3

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Section 330

Fees and Other Types of Remuneration

Introduction

- 330.1 Assurance practitioners 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.
- 330.2 The level and nature of fee and other remuneration arrangements might create self-interest threats.
- 330.3 Section 330 sets out specific application material relevant to applying the conceptual framework to fees and other types of remuneration.

Commented [IESBA162]: New paragraph

Commented [IESBA163]: New paragraph

Commented [IESBA164]: New paragraph

Application Material

Level of Fees

- 330.4 A1 The level of fees quoted might impact an assurance practitioner's professional accountant's ability to perform professional services in accordance with the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board, professional standards.
- 330.4 A2 An assurance practitioner professional accountant might quote whatever fee is considered appropriate. Quoting a fee lower than another assurance practitioner accountant is not in itself unethical. However, the level of fees quoted creates a threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board, and the New Zealand Accounting Standards Board.
- 330.4 A3 Factors that are relevant in evaluating the level of any threats created by the level of fees quoted include:
- Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are charged and which professional services the quoted fee covers.
 - Whether the level of the fee is set by an independent third party such as a regulator or a tax authority.
- 330.4 A4 Examples of actions that might be safeguards to address threats set out in paragraph 330.4 A2 include:
- Adjusting the level of fees or the scope of the engagement.
 - Assigning a professional with appropriate expertise to review the work performed.

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Commented [IESBA168]: 240.2

Contingent Fees

- 330.5 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.
- 330.5 A2 Factors that are relevant in evaluating the level of threats created by contingent fees include:

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Commented [IESBA170]: 240.3

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- The nature of the engagement.
- The range of possible fee amounts.
- The basis for determining the fee.
- An advance written agreement with the client on the basis of remuneration.
- Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration.
- Quality control policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulator or a tax authority.

Commented [IESBA171]: 240.3

330.5 A3 An example of an action that might be a safeguard to address threats created by contingent fees is having a review by an independent third party of the work performed by the professional accountant/assurance practitioner.

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330.5 A4 Requirements and application material related to contingent fees for services provided to audit or review clients and other assurance clients are set out in Parts 4A and 4B, respectively.

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Referral Fees or Commissions

NZ R330.6 ~~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.~~

Commented [SW174]: Extant PES1 NZ240.9

330.6 A1 ~~A self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a professional accountant pays or receives a referral fee or receives a commission relating to a client. For example, such referral fees or commissions include:~~

Commented [IESBA175]: 240.5

~~A fee paid to another accountant for the purposes of obtaining new client work when the client continues as a client of the existing accountant but requires specialist services not offered by that accountant.~~

~~A fee received for referring a continuing client to another accountant or other expert where the existing accountant does not provide the specific professional service required by the client.~~

~~A commission received from a third party (for example, a software vendor) in connection with the sale of goods or services to a client. [Deleted by the NZAuASB. Refer to NZR330.6]~~

330.7 A1 ~~A factor that is relevant in evaluating the level of threats set out in paragraph 330.6 A1 is whether the professional accountant has disclosed to the client any referral fee paid to, or received from, another accountant. [Deleted by the NZAuASB. Refer to NZR330.6]~~

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330.8 A1 ~~An example of an action that might be a safeguard to address threats created by the receipt of a commission is to obtain advance agreement from the client for commission arrangements in connection with the sale by another party of goods or services to the client. [Deleted by the NZAuASB. Refer to NZR330.6]~~

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Purchase or Sale of a Firm

330.9 A1 An assurance practitioner professional accountant 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 referral fees or commissions for the purpose of paragraph NZR330.6s of this section.

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Section 340

Gifts and Hospitality

Introduction

- 340.1 [Assurance practitioners](#) ~~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 An offer of gifts or hospitality from a client might create self-interest, familiarity or intimidation threats.
- 340.3 ~~Section 340~~ sets out specific application material relevant to applying the conceptual framework to offers of gifts and hospitality.

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Application Material

- 340.4 A1 An offer of gifts or hospitality from a client to an [assurance practitioner](#) ~~professional accountant~~, or an immediate or close family member of an [assurance practitioner](#) ~~accountant~~, might create:
- A self-interest or familiarity threat to compliance with the principle of objectivity if the offer is accepted.
 - An intimidation threat if the acceptance of the offer might be made public.
- 340.4 A2 The level of any threat created by an offer of a gift or hospitality will depend on the nature, value and intent of the offer, and whether, taking into account the reasonable and informed third party test:
- The offer of gifts or hospitality would be considered to be trivial and inconsequential; or
 - The offer of gifts or hospitality is made in the normal course of business without intent to influence decision making or to obtain information

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Commented [IESBA183]: 260.2

Section 350

Custody of Client Assets

Introduction

- 350.1 ~~Assurance practitioners~~ ~~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.
- 350.2 Holding client assets creates threats, for example, a self-interest threat to compliance with the principles of professional behavior and objectivity.
- 350.3 Section 350 sets out specific requirements and application material relevant to applying the conceptual framework to assuming custody of client money or other assets.

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Requirements and Application Material

General

- R350.4 An assurance practitioner ~~professional accountant~~ shall not assume custody of client money or other assets unless permitted to do so by law and in accordance with any conditions under which such custody may be taken.
- R350.5 As part of client and engagement acceptance procedures related to assuming custody of client money or assets, an assurance practitioner ~~professional accountant~~ shall:
- (a) Make inquiries about the source of the assets; and
 - (b) Consider related legal and regulatory obligations.
- 350.5 A1 Inquiries about the source of client assets might reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such circumstances, a threat would be created and the provisions of Section 360 would apply.
- R350.6 An assurance practitioner ~~professional accountant~~ entrusted with money or other assets belonging to others shall:
- (a) Comply with the laws and regulations relevant to holding and accounting for the assets;
 - (b) Keep the assets separately from personal or firm assets;
 - (c) Use the assets only for the purpose for which they are intended; and
 - (d) Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to that accounting.

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Commented [IESBA189]: 270.3

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INTERNATIONAL INDEPENDENCE STANDARDS (PARTS 4A AND 4B)

PART 4A – INDEPENDENCE FOR AUDITS AND REVIEWS

Section 400

Applying the Conceptual Framework to Independence for Audits and Reviews

Introduction

400.1 It is in the public interest and required by the Code that ~~professional accountants~~ assurance practitioners in public practice be independent when performing audit or review engagements

Commented [IESBA192]: 290.4

400.2 ~~Part 4A applies to both audit and review engagements. The term(s) "audit," "audit team," "audit engagement," "audit client," and "audit report" apply equally to review, review team, review engagement, review client and review engagement report. [Amended by the NZAuASB. See NZ400.2.1]~~

Commented [IESBA193]: 290.3

Commented [SW194]: This paragraph is marked as amended because in the NZ Code we refer separately to audit and review throughout Part 4A.

NZ400.2.1 Part 4A applies to both audit and review engagements.

NZ400.2.2 Part 4A also applies to 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.

Commented [SW195]: Extant PES1 NZ290.1.1

400.3 In Part 4A, the term "~~professional accountant~~ assurance practitioner" refers to ~~professional accountants in public practice~~ assurance practitioners and their firms.

Commented [IESBA196]: New paragraph

400.4 ~~International Standard on Quality Control 1 (ISQCs)~~ Professional and Ethical Standard 3 (Amended)¹, requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements, maintain independence where required by relevant ethics requirements. ~~International Standards on Auditing (New Zealand) (ISAs (NZ)), and International Standards on Review Engagements (New Zealand) (ISREs (NZ)), and New Zealand Standards on Review Engagements (NZ SREs)~~ establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of Part 4A do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an audit team), in accordance with Professional and Ethical Standard 3 (Amended) ~~ISQC 4~~. In addition, individual ~~professional accountants~~ assurance practitioners remain responsible for compliance with any provisions that apply to that ~~accountant's assurance practitioner's~~ activities, interests or relationships.

Commented [IESBA197]: 290.12

400.5 Independence is linked to the principles of objectivity and integrity. It comprises:

Commented [IESBA198]: 290.6

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby

¹ ~~ISQC 4~~ Professional and Ethical Standard 3 (Amended), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements

allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit team member's, integrity, objectivity or professional skepticism has been compromised.

In Part 4A, references to an individual or firm being "independent" mean that the individual or firm has complied with the provisions of this Part.

400.6 When performing audit and review engagements, the Code requires firms to comply with the fundamental principles and be independent. Part 4A sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.

Commented [IESBA199]: New paragraph

400.7 Part 4A describes facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence. Firms are required to apply the conceptual framework to threats to independence as well as to threats to compliance with the fundamental principles that are linked to independence. Part 4A describes potential threats, and safeguards or other actions that might be appropriate to address any such threats. It also identifies some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

Commented [IESBA200]: 290.5, 290.8, 290.9, 290.100

Public Interest Entities

400.8 Some of the requirements and application material set out in Part 4A reflect the extent of public interest in certain entities which are defined to be public interest entities. Firms 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 or represent a higher level of risk. Factors to be considered include:

Commented [IESBA201]: 290.25, 290.26

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

Commented [SW202]: This wording included in extant PES1, para290.26.

Reports that Include a Restriction on Use and Distribution

400.9 An audit or review report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in Part 4A (excluding Sections 800) may be modified as provided in Section 800.

Commented [IESBA203]: 290.2

Assurance Engagements other than Audits and Reviews

400.10 Independence standards for assurance engagements that are not audit or review engagements are set out in Part 4B – *Independence Standards for Other Assurance Engagements*.

Commented [IESBA204]: 290.1 last sentence

Requirements and Application Material

General

R400.11 A firm performing an audit or review engagement shall be independent.

Commented [IESBA205]: 280.2

R400.12 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit or review engagement.

Commented [IESBA206]: New paragraph

NZ R400.12.1 When 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 reduce them to an acceptable level in aggregate.

Commented [SW207]: Requirement based extant PES1 NZ290.11.1.

Does the Board agree with the tentative placement of this NZ paragraph?

An alternative location is Section 120 which deals with the conceptual framework – however, the context of this paragraph is independence. Inclusion in section 120 may require broadening the requirement to refer to multiple threats to compliance with the fundamental principles, which may go beyond the scope of redrafting for clarity.

[Paragraphs 400.13 to 400.19 are intentionally left blank]

Related Entities

R400.20 As defined, an audit or review client that is a FMC reporting listed entity considered to have a higher level of public accountability includes all of its related entities. For all other entities, references to an audit or review client in Part 4A include related entities over which the client has direct or indirect control. When the audit or review team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit or review team shall include that related entity when identifying, evaluating and addressing threats to independence.

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[Paragraphs 400.21 to 400.29 are intentionally left blank]

Period During which Independence is Required

R400.30 Independence as required by this Part 4A shall be maintained during both:

Commented [IESBA209]: 290.30

- (a) The engagement period; and
- (b) The period covered by the financial statements.

400.30 A1 The engagement period starts when the audit or review team begins to perform audit services. The engagement period ends when the audit or review report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit or review report.

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R400.31 If an entity becomes an audit or review client during or after the period covered by the financial statements on which the firm will express an opinion or a conclusion, the firm shall determine whether any threats to independence are created by:

Commented [IESBA211]: 290.31

Commented [SW212]: This is not a change made in extant PES1. In a review engagement, the practitioner expresses a conclusion rather than an opinion.

Does the Board agree that this change is necessary?

- (a) Financial or business relationships with the audit or review client during or after the period covered by the financial statements but before accepting the audit or review engagement; or
- (b) Previous services provided to the audit or review client by the firm or a network firm.

R400.32 If a non-assurance service was provided to an audit or review client during, or after the period covered by the financial statements, but before the audit or review team begins to perform audit or review services, and the service would not be permitted during the engagement period, the firm shall evaluate the level of the threat to independence created by the service. If the

Commented [IESBA213]: 290.32

threats are not at an acceptable level, the firm shall only accept the audit [or review](#) engagement if the threats are addressed.

400.32 A1 Examples of actions that might be safeguards to address threats to independence include:

- Not including individuals who provided the non-assurance service as members of the audit [or review](#) team.
- Having an [additional assurance practitioner-professional-accountant](#) review the audit [or review](#) and non-assurance work as appropriate.
- Engaging another firm to evaluate the results of the non-assurance service.
- Having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Commented [IESBA214]: 290.32

[Paragraphs 400.33 to 400.39 are intentionally left blank]

Communication with those Charged with Governance

400.40 Paragraph R300.9 set out requirements with respect to communicating with those charged with governance.

400.40 A1 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

- Consider the firm's judgments in identifying and evaluating threats;
- Consider how threats have been addressed including the appropriateness of safeguards when they are available or capable of being applied; and
- Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

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[Paragraphs 400.41 to 400.49 are intentionally left blank]

Network Firms

400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide [professional-assurance](#) services. Whether these larger structures create a network depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct.

R400.51 A network firm shall be independent of the audit [or review](#) clients of the other firms within the network as required by Part 4A.

400.51 A1 The independence requirements in Part 4A that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

R400.52 When associated with a larger structure of other firms and entities, a firm shall:

- Exercise professional judgment to determine whether a network is created by such a larger structure;

Commented [IESBA216]: 290.14

Commented [SW217]: Professional services is changed to assurance services in the equivalent paragraph in extant PES1.

Professional services is defined as, Professional activities performed for clients

Professional activity is defined as, An activity requiring accountancy or related skills undertaken by an assurance practitioner, including accounting, auditing, taxation, management consulting, and financial management

Assurance services - Comprise of any assurance engagements performed by an assurance practitioner.

Staff is still investigating the background to this change and whether consequential changes to other paragraphs may be necessary. .

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Commented [IESBA219]: 290.13

Commented [IESBA220]: 290.15

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- (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
- (c) Apply such judgement consistently throughout such a larger structure.

R400.53 When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);
- (c) The entities within the structure share common quality control policies and procedures. (Ref: Para. 400.53 A4);
- (d) The entities within the structure share a common business strategy. (Ref: Para. 400.52 A5);
- (e) The entities within the structure share the use of a common brand name. (Ref: Para. 400.53 A6, 400.53 A7); or
- (f) The entities within the structure share a significant part of professional resources. (Ref: Para 400.53 A8, 400.53 A9)

400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network in addition to those arrangements set out in paragraph R400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.

400.53 A2 The sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit or review methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R400.53(a)).

400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R400.53 (b)).

400.53 A4 Common quality control policies and procedures are those designed, implemented and monitored across the larger structure. (Ref: Para. R400.53 (c)).

400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of an assurance professional service. (Ref: Para. R400.53 (d)).

400.53 A6 A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or along with its firm name when a partner of the firm signs an audit or review report. (Ref: Para. R400.53 (e)).

400.53A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials

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Commented [IESBA231]: 290.19

Commented [SW232]: Refer to comment on paragraph 400.50 A1.

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Commented [IESBA234]: 290.21

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refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R400.53(e)).

400.53 A8 Professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records.
- Partners and other personnel.
- Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
- Audit [or review](#) methodology or audit [or review](#) manuals.
- Training courses and facilities. (Ref: Para. R400.53(f)).

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400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:

- The shared resources might be limited to common audit [or review](#) methodology or audit [or review](#) manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavour.
- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R400.52(f)).

Commented [IESBA236]: 290.24

R400.54 If a firm or a network sells a component of its practice, and the component continues to use all or part of the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

Commented [IESBA237]: 290.22

400.54 A1 The agreement for the sale of a component of a practice might provide that, for a limited period of time, the sold component can continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

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[Paragraphs 400.55 to 400.59 are intentionally left blank]

General Documentation of Independence for Audits and Reviews

R400.60 A firm shall document conclusions regarding compliance with this Part and the substance of any relevant discussions that support those conclusions. In particular:

Commented [IESBA239]: 290.29

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and

- (b) When a threat requires significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

400.60 A1 Documentation provides evidence of the firm's judgements when forming conclusions regarding compliance with Part 4A. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

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[Paragraphs 400.61 to 400.69 are intentionally left blank]

Mergers and Acquisitions

400.70 A1 An entity might become a related entity of an audit or review client because of a merger or acquisition. A threat to independence, and therefore, to the ability of a firm to continue an audit or review engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

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R400.71 In the circumstances set out in paragraph 400.70 A1,

Commented [IESBA243]: 290.33

- (a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threats, might affect its independence and therefore its ability to continue the audit or review engagement after the effective date of the merger or acquisition; and.
- (b) Subject to paragraph R400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

R400.72 As an exception to paragraph R400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

Commented [IESBA244]: 290.34

- (a) Evaluate the threat that is created by the interest or relationship; and
- (b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.

400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

Commented [IESBA245]: 290.33, 290.34

400.72 A2 Factors that are relevant in evaluating the level of any threats created by mergers and acquisitions include:

Commented [IESBA246]: 290.34

- The nature and significance of the interest or relationship.
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent).
- The length of time until the interest or relationship can reasonably be ended.

R400.73 If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the assurance practitioner/auditor, the firm shall do so only if:

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Commented [SW248]: As this requirement applies to both audit and review engagements, assurance practitioner has been used rather than auditor.

Does the Board agree with this change?

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- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the engagement team for the audit [or review](#) or the individual responsible for the engagement quality control review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1 Examples of such transitional measures include:

- Having an [an assurance practitioner](#) ~~professional accountant~~ review the audit ~~or review~~ or non-assurance work as appropriate.
- Having an [an assurance practitioner](#) ~~professional accountant~~, who is not a member of the firm expressing the opinion [or conclusion](#) on the financial statements, perform a review that is equivalent to an engagement quality control review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Commented [IESBA249]: 290.35(c)

R400.74 The firm might have completed a significant amount of work on the audit [or review](#) prior to the effective date of the merger or acquisition and might be able to complete the remaining audit [or review](#) procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the audit [or review](#) while continuing with an interest or relationship identified in paragraph 400.70 A1, the firm shall only do so if it:

Commented [IESBA250]: 290.36

- (a) Has evaluated the level of the threat and discussed the results with those charged with governance;
- (b) Complies with the requirements of paragraph R400.73(a) to (c); and
- (c) Ceases to be the ~~auditor~~ [assurance practitioner](#) no later than the date that the audit [or review](#) report is issued.

R400.75 Even if all the requirements of paragraphs R400.71 to R400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 400.70 A1 create threats that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to be the [assurance practitioner](#) ~~auditor~~.

R400.76 The firm shall document:

Commented [IESBA251]: 290.38

- (a) Any interests or relationships identified in paragraph 400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance; and
- (d) The reasons why the previous and current interests and relationships do not create threats such that objectivity would be compromised.

[Paragraphs 400.77 to 400.79 are intentionally left blank.]

Breach of a Provision of Independence for Audits and Reviews

When a Firm Identifies a Breach

R400.80 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
 - (i) Comply with those requirements; and
 - (ii) Consider reporting the breach to a professional body, regulator or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
 - (i) The engagement partner;
 - (ii) Those with responsibility for the policies and procedures relating to independence;
 - (iii) Other relevant personnel in the firm and, where appropriate, the network; and
 - (iv) Those subject to the independence requirements in Part 4A who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit or review report; and
- (e) Depending on the significance of the breach, determine:
 - (i) Whether to end the audit or review engagement; or
 - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making the determination in paragraph R400.80(e)(ii), the firm shall exercise professional judgement and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit or review report.

400.80 A1 A breach of a provision of Part 4A might occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. It might be necessary to end the audit or review engagement because of the breach.

400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue an audit or review report will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current audit or review engagement.

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Commented [IESBA255]: 290.42

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- Whether an audit [or review](#) team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is an audit [or review](#) team member or another individual for whom there are independence requirements.
- If the breach relates to an audit [or review](#) team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements on which the firm will express an opinion [or a conclusion](#).
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

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- Removing the relevant individual from the audit [or review](#) team.
- Using different individuals to conduct an additional review of the affected audit [or review](#) work or to re-perform that work to the extent necessary.
- Recommending that the audit [or review](#) client engage another firm to review or re-perform the affected audit [or review](#) work to the extent necessary.
- If the breach relates to a non-assurance service that affects the accounting records or an amount recorded in the financial statements:
 - Engaging another firm to evaluate the results of the non-assurance service.
 - Having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R400.81 If the firm determines that it cannot take action to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the audit [or review](#) engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

Commented [IESBA261]: 290.45

R400.82 If the firm determines that it can take action to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

Commented [IESBA262]: 290.46

- (a) The significance of the breach, including its nature and duration;
- (b) How the breach occurred and how it was identified;
- (c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue an audit [or review](#) report;
- (d) The conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for that conclusion; and
- (e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

Communication of Breaches to Those Charged with Governance

400.83 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

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R400.84 With respect to breaches, the firm shall communicate in writing to those charged with governance:

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- (a) All matters discussed in accordance with paragraph R400.82 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; and
- (b) 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.

R400.85 If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit or review engagement in accordance with paragraph R400.81.

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Breaches Before the Previous Audit Report Was Issued

R400.86 If the breach occurred prior to the issuance of the previous audit or review report, the firm shall comply with the provisions of Part 4A in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit or review report in the current period.

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R400.87 The firm shall also:

Commented [IESBA267]: 290.48

- (a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit or review reports, and the possibility of withdrawing such audit or review reports; and
- (b) Discuss the matter with those charged with governance.

Documentation

R400.88 In complying with the requirements in paragraphs R400.80 to R400.87, the firm shall document:

Commented [IESBA268]: 290.49

- (a) The breach;
- (b) The action taken;
- (c) The key decisions made;
- (d) All the matters discussed with those charged with governance; and
- (e) Any discussions with a professional body, regulator or oversight authority.

R400.89 If the firm continues with the audit or review engagement, it shall also document the conclusion that, in the firm's professional judgment, objectivity has not been compromised and why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit or review report.

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Section 410

Fees

Introduction

- 410.1 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.
- 410.2 The nature and level of fees or other types of remuneration might create self-interest or intimidation threats.
- 410.3 Section 410 sets out specific requirements and application material relevant to applying the conceptual framework to fees or other types of remuneration.

Commented [IESBA270]: New paragraph

Commented [IESBA271]: Derived from 290.215

Commented [IESBA272]: New paragraph

Requirements and Application Material

Fees – Relative Size

- 410.4 A1 When the total fees generated from an audit or review client by the firm expressing the audit opinion or review conclusion represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat. Factors that are relevant in evaluating the level of those threats include:

- The operating structure of the firm.
- Whether the firm is well established or new.
- The significance of the client qualitatively and/or quantitatively to the firm.

Commented [IESBA273]: 290.215

- 410.4 A2 Examples of actions that might be safeguards to address threats created by the firm's dependence on fees charged to the audit or review client include:

- Increasing the client base in the firm to reduce dependence on the audit or review client.
- External quality control reviews.
- Consulting a third party, such as a professional or regulatory body or an additional assurance practitioner-professional accountant, on key audit judgments.

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NZ R410.5 When actions that might be safeguards are not available or cannot eliminate the threats created by the firm's dependence on fees charged to the audit or review client or reduce them to an acceptable level, the firm shall decline or withdraw from the engagement.

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(Extant wording)
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.

- 410.5 A1 A self-interest or intimidation threat is also created when the fees generated by a firm from an audit or review client represent a large proportion of the revenue of one partner or one office of the firm.

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- 410.5 A2 Factors that are relevant in evaluating the level of any threat created by dependence of one partner or office on fees generated from an audit or review client include:

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- The significance of the client qualitatively and/or quantitatively to the partner or office.
- The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.

- 410.5 A3 Examples of actions that might be safeguards to address threats created by fees generated from an audit or review client include:

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- Increasing the client base of the partner or the office to reduce dependence on the audit [or review](#) client.
- Having an [additional assurance practitioner](#) -~~professional-accountant~~ review the work as necessary.
- Regular independent internal or external quality reviews of the engagement.

Audit [or Review](#) Clients that are Public Interest Entities

R410.6 Where an audit [or review](#) client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall:

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- (a) Disclose to those charged with governance of the audit [or review](#) client the fact that the total of such fees represents more than 15% of the total fees received by the firm; and
- (b) Discuss whether either of the following actions might be a safeguard to address the threat created by the total fees received by the firm from the client, and if so, apply it:
 - (i) Prior to the audit opinion [or review conclusion](#) being issued on the second year's financial statements, a [another assurance practitioner](#) -~~professional-accountant~~, who is not a member of the firm expressing the opinion [or conclusion](#) on the financial statements, performs an engagement quality control review of that engagement; or a professional body performs a review of that engagement that is equivalent to an engagement quality control review ("a pre-issuance review"); or
 - (ii) After the audit opinion [or review conclusion](#) on the second year's financial statements has been issued, and before the audit opinion [or review conclusion](#) being issued on the third year's financial statements, a [another assurance practitioner](#) -~~professional-accountant~~, who is not a member of the firm expressing the opinion [or conclusion](#) on the financial statements, or a professional body performs a review of the second year's audit [or review](#) that is equivalent to an engagement quality control review ("a post-issuance review").

R410.7 When the total fees described in paragraph R410.6 significantly exceed 15%, the firm shall determine whether the level of the threat is such that a post-issuance review would not reduce the threat to an acceptable level. If so, the firm shall have a pre-issuance review performed.

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R410.8 If the fees described in paragraph R410.6 continue to exceed 15%, the firm shall each year:

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- (a) Disclose to and discuss with those charged with governance the matters set out in paragraph R410.6; and
- (b) Comply with paragraphs R410.6(b) and R410.7.

Fees – Overdue

410.9 A1 A self-interest threat might be created if a significant part of fees is not paid before the audit [or review](#) report for the following year is issued. It is generally expected that the firm will require payment of such fees before such audit [or review](#) report is issued. The requirements and application material set out in Section 511 with respect to loans and guarantees might also be relevant to situations where such unpaid fees exist.

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410.9 A2 Examples of actions that might be safeguards to address threats created by overdue fees include:

- Obtaining partial payment of overdue fees.
- Having an additional ~~professional accountant~~ assurance practitioner, who did not take part in the audit or review engagement, ~~or~~ review the work performed.

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R410.10 When a significant part of fees due from an audit or review client remains unpaid for a long time, a firm shall determine:

- Whether the overdue fees might be equivalent to a loan to the client; and
- Whether it is appropriate for the firm not to accept appointment or continue the audit or review engagement because of the significance of the overdue fees.

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Contingent Fees

410.11 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

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R410.12 A firm shall not charge directly or indirectly a contingent fee for an audit or review engagement.

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R410.13 A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an audit or review client, if:

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- The fee is charged by the firm expressing the opinion or conclusion on the financial statements and the fee is material or expected to be material to that firm;
- The fee is charged by a network firm that participates in a significant part of the audit or review and the fee is material or expected to be material to that firm; or
- The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the audit or review of a material amount in the financial statements.

410.14 A1 Paragraphs R410.12 and R410.13 preclude a firm or a network firm from entering into certain contingent fee arrangements with an audit or review client. Even if such contingent fee arrangements are not precluded when providing a non-assurance service to an audit or review client, a self-interest threat might still be created.

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410.14 A2 Factors that are relevant in evaluating the level of such threats include:

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- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- The nature of the service.
- The effect of the event or transaction on the financial statements.

410.14 A3 Examples of actions that might be safeguards to address threats created by a contingent fee include:

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- Having an [additional assurance practitioner](#) ~~professional accountant~~ review the relevant audit [or review](#) work as necessary.
- Using professionals who are not members of the audit [or review](#) team to perform the non-assurance service.

Section 411

Compensation and Evaluation Policies

Introduction

- 411.1 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.
- 411.2 A firm's evaluation or compensation policies might create self-interest threats.
- 411.3 Section 411 sets out specific requirements and application material relevant to applying the conceptual framework to compensation and evaluation policies.

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Requirements and Application Material

- 411.4 A1 When an audit or review team member for a particular audit or review client is evaluated on or compensated for selling non-assurance services to that audit or review client, the level of the self-interest threat will depend on:
- (a) What proportion of the compensation or evaluation is based on the sale of such services;
 - (b) The role of the individual on the audit or review team; and
 - (c) Whether the sale of such non-assurance services influences promotion decisions.
- 411.4 A2 An example of an action that might be a safeguard to address threats created by compensation and evaluation policies is having an additional assurance practitioner professional accountant review the work of the audit or review team member.
- Actions that might eliminate those threats include:
- Revising the compensation plan or evaluation process for that individual.
 - Removing that individual from the audit or review team.
- R411.5** A firm shall not evaluate or compensate a key audit or key assurance partner based on that partner's success in selling non-assurance services to the partner's audit or review client. This requirement does not preclude normal profit-sharing arrangements between partners of a firm.

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Commented [IESBA295]: 290.223

Commented [SW296]: Changed to Key audit or key assurance partner as key audit partner is specific to an audit engagement and this requirement applies to both audit and review engagements. Key assurance partner is a defined term in PES1.

Does the Board agree with this change?

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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 or hospitality from an audit [or review](#) client might create self-interest, familiarity or other threats.
- 420.3 Section 420 sets out a specific requirement relevant to applying the conceptual framework to offers of gifts and hospitality.

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Requirement

- R420.4** A firm, a network firm or an audit [or review](#) team member shall not accept gifts or hospitality from an audit [or review](#) client, unless the value is trivial and inconsequential.

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Section 430

Actual or Threatened Litigation

Introduction

430.1 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.

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430.2 When litigation occurs, or appears likely, between an audit [or review](#) client and the firm, a network firm or an audit [or review](#) team member, self-interest and intimidation threats are created.

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430.3 Section 430 sets out specific application material relevant to applying the conceptual framework to such actual or threatened litigation.

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Application Material

430.4 A1 The relationship between client management and audit [or review](#) team members must be characterized by complete candour and full disclosure regarding all aspects of a client's operations. The adversarial positions which might result from actual or threatened litigation might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.

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430.4 A2 Factors that are relevant in evaluating the level of such threats include:

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- The materiality of the litigation.
- Whether the litigation relates to a prior audit [or review](#) engagement.

430.4 A3 An example of an action that might be a safeguard to address threats created by actual or threatened litigation is to have an [additional assurance practitioner professional](#) review the work performed.

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If the litigation involves an audit [or review](#) team member, an action that might eliminate the threat is removing that individual from the audit [or review](#) team.

Section 510

Financial Interests

Introduction

- 510.1 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.
- 510.2 Holding a financial interest in an audit or review client might create a self-interest threat.
- 510.3 Section 510 sets out specific requirements and application material relevant to applying the conceptual framework to financial interests.

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Requirements and Application Material

General

- 510.4 A1 A financial interest might be held directly or held indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or the ability to influence its investment decisions, the Code defines that financial interest to be indirect.
- 510.5 A1 Section 510 contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 510.6 A1 Factors that are relevant in evaluating the level of threats created by holding financial interests in an audit or review client include:
- (a) The role of the individual holding the financial interest;
 - (b) Whether the financial interest is direct or indirect; and
 - (c) The materiality of the financial interest.

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Financial Interests Held by the Firm, a Network Firm, Audit or Review Team Members, and Other Partners and Employees of the Firm

R510.7 Subject to paragraph R510.8, a direct financial interest or a material indirect financial interest in the audit or review client shall not be held by:

- (a) The firm or a network firm;
- (b) An audit or review team member, or any of that individual’s immediate family;
- (c) Any other partner in the office in which an engagement partner practices in connection with the audit or review engagement, or any of that other partner’s immediate family;
- (d) Any other partner or managerial employee who provides non-audit assurance services to the audit or review client, except for any whose involvement is minimal, or any of that individual’s immediate family.

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Commented [IESBA314]: 290.104

Commented [IESBA315]: 290.108

Commented [IESBA316]: 290.110

- 510.7 A1 The office in which the engagement partner practices in connection with an audit or review engagement is not necessarily the office to which that partner is assigned. When the

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engagement partner is located in a different office from that of the other members of the audit or review team, professional judgment is needed to determine the office in which the partner practices in connection with the engagement.

R510.8 As an exception to paragraph R510.7, an immediate family member identified in subparagraphs 510.7(c) or (d) may hold a direct or material indirect financial interest in an audit or review client, provided that:

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- (a) The family member received the financial interest because of employment rights (for example, through pension or share option plans); and, when necessary, the firm addresses the threats created by the financial interest; and
- (b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

R510.9 When an entity has a controlling interest in an audit or review client and the audit or review client is material to the entity, neither the firm, nor a network firm, nor an audit or review team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

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Financial Interests Held as Trustee

R510.10 Paragraph R510.7 shall also apply to a financial interest in an audit or review client held in a trust for which the firm, network firm or individual acts as trustee, unless:

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- (a) None of the following is a beneficiary of the trust: the trustee, the audit or review team member or any of that individual's immediate family, the firm or a network firm;
- (b) The interest in the audit or review client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the audit or review client; and
- (d) None of the following can significantly influence any investment decision involving a financial interest in the audit or review client: the trustee, the audit or review team member or any of that individual's immediate family, the firm or a network firm.

Financial Interests in Common with the Audit or Review Client

R510.11 (a) A firm, or a network firm, or an audit or review team member, or any of that individual's immediate family shall not hold a financial interest in an entity when an audit or review client also has a financial interest in that entity, unless:

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- (i) The financial interests are immaterial to the firm, the network firm, the audit or review team member and that individual's immediate family member and the audit or review client, as applicable; or
- (ii) The audit or review client cannot exercise significant influence over the entity.

(b) Before an individual who has a financial interest described in paragraph R510.11(a) can become an audit or review team member, the individual or that individual's immediate family member shall either:

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- (i) Dispose of the interest; or

- (ii) Dispose of enough of the interest so that the remaining interest is no longer material.

Financial Interests Received Unintentionally

R510.12 If a firm, a network firm or a partner or employee of the firm or a network firm, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an audit [or review](#) client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section:

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- (a) If the interest is received by the firm or a network firm, or an audit [or review](#) team member or any of that individual's immediate family, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or
- (b) (i) If the interest is received by an individual who is not an audit [or review](#) team member, or by any of that individual's immediate family, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and
- (ii) Pending the disposal of the financial interest, when necessary the firm shall address the threats created.

Financial Interests – Other circumstances

R510.13 In the following circumstances related to financial interests, the firm shall apply the conceptual framework set out in Section 120:

- (a) If an audit [or review](#) team member knows that a close family member has a direct or material indirect financial interest in the audit [or review](#) client. (Ref: Para. 510.13 A1).
- (b) If a retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in an audit [or review](#) client.
- (c) If an audit team member, or any of that individual's immediate family, or a firm or a network firm, has a financial interest in an entity and a director or officer or controlling owner of the audit client is also known to have a financial interest in the same entity. (Ref: Para. 510.13 A4).
- (d) If an audit team member knows that a financial interest in the audit client is held by other individuals including:
 - (i) Partners and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R510.7, or their immediate family members.
 - (ii) Individuals with a close personal relationship with an audit [or review](#) team member. (Ref: Para. 510.13 A7).

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Commented [IESBA326]: 290.113

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510.13 A1 A self-interest threat might be created if an audit team member has a close family member who the audit team member knows has a direct or material indirect financial interest in the audit client. (Ref: Para. R510.13(a)).

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510.13 A2 Factors that are relevant in evaluating the level of such a threat include:

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- The nature of the relationship between the audit [or review](#) team member and the close family member.
- The materiality of the financial interest to the close family member.
- Whether the financial interest is direct or indirect.

510.13 A3 An **example of** an action that might be a safeguard to address threats created by having a financial interest as set out in paragraph R510.13(a) is having an [additional assurance practitioner-professional accountant](#) review the work of the audit [or review](#) team member.

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Actions that might eliminate those threats include:

- The close family member disposing, as soon as practicable, of all of the financial interest or disposing of enough of an indirect financial interest so that the remaining interest is no longer material.
- Removing the individual from the audit [or review](#) team.

510.13 A4 **Self-interest, familiarity, or intimidation** threats might be created if an audit team member, or any of that individual's immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the audit client is also known to have a financial interest in that entity. (Ref: Para. R510.13(c)).

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510.13 A5 **Factors that are relevant** in evaluating the level of such threats include:

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- The role of the individual on the audit team.
- Whether ownership of the entity is closely or widely held.
- Whether the interest allows the investor to control or significantly influence the entity.
- The materiality of the financial interest.

510.13 A6 An **example of** an action that might be a safeguard to address threats created by having a financial interest set out in paragraph R510.13(c) is having an [additional assurance practitioner-professional accountant](#) review the work of the audit [or review](#) team member.

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An action that might eliminate those threats is removing the audit [or review](#) team member with the financial interest from the audit [or review](#) team.

510.13 A7 **Factors that are relevant** in evaluating the level of threats created by the interests set out in paragraph R510.13(d) include:

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- The firm's ~~organis~~ational, operating and reporting structure.
- The nature of the relationship between the individual and the audit [or review](#) team member.

510.13 A8 **Examples of** actions that might be safeguards to address threats created by a financial interest set out in paragraph R510.13(d) include:

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- Excluding the audit [or review](#) team member from any significant decision-making concerning the audit [or review](#) engagement.
- Having an [additional assurance practitioner-professional accountant](#) review the work of the audit [or review](#) team member.

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An action to eliminate those threats is removing the audit [or review](#) team member with the personal relationship from the audit [or review](#) team.

Section 511

Loans and Guarantees

Introduction

- 511.1 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.
- 511.2 A loan or a guarantee of a loan between an audit [or review](#) client and a firm, a network firm, an audit [or review](#) team member, or any of that individual's immediate family might create self-interest threats.
- 511.3 Section 511 sets out specific requirements and application material relevant to applying the conceptual framework to loans and guarantees.

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Requirements and Application Material

General

- 511.4 A1 Section 511 contains references to the "materiality" of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

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Loans and Guarantees with an Audit [or Review](#) Client

- R511.5 A firm, a network firm, an audit [or review](#) team member, or any of that individual's immediate family shall not make or guarantee a loan to an audit [or review](#) client unless the loan or guarantee is immaterial to:
- (a) The firm, the network firm or the individual making the loan or guarantee, as applicable; and
 - (b) The client.

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Loans and Guarantees with an Audit [or Review](#) Client that is a Bank or Similar Institution

- R511.6 A firm, a network firm, an audit [or review](#) team member, or any of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from an audit [or review](#) client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 511.6 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.
- 511.6 A2 If a loan from an audit [or review](#) client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the audit [or review](#) client or firm receiving the loan, it might create a self-interest threat. An example of an action that might be a safeguard to address such a threat is having the work reviewed by an [additional assurance practitioner–professional](#) who is not a member of the audit [or review](#) team that is neither involved with the audit [or review](#), nor is a beneficiary of the loan. If the loan is to a firm the reviewing [professional–assurance practitioner](#) might be someone from a network firm.

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Deposits or Brokerage Accounts

R511.7 A firm, a network firm, an audit or review team member, or any of that individual's immediate family shall not have deposits or a brokerage account with an audit or review client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

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Loans and Guarantees with an Audit or Review Client that is Not a Bank or Similar Institution

R511.8 A firm, a network firm, an audit or review team member, or any of that individual's immediate family shall not accept a loan from, or have a borrowing guaranteed by, an audit or review client that is not a bank or similar institution, unless the loan or guarantee is immaterial to:

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- (a) The firm, the network firm, or the individual receiving the loan or guarantee, as applicable; and
- (b) The client.

Section 520

Business Relationships

Introduction

- 520.1 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.
- 520.2 A close business relationship between an audit [or review](#) client or its management and a firm, a network firm, an audit [or review](#) team member, or any of that individual's immediate family might create self-interest or intimidation threats.
- 520.3 Section 520 sets out specific requirements and application material relevant to applying the conceptual framework to these business relationships.

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Requirements and Application Material

General

- 520.4 A1 Section 520 contains references to the "materiality" of a financial interest and the "significance" of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.
- 520.5 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:
- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
 - Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
 - Distribution or marketing arrangements under which the firm or a network firm distributes or markets the client's products or services, or the client distributes or markets the firm or a network firm's products or services.

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Firm, Network Firm or Audit [or Review](#) Team Member Relationships

- R520.6** A firm, a network firm or an audit [or review](#) team member shall not have a close business relationship with an audit [or review](#) client or its management unless the financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the audit [or review](#) team member, as applicable.

Commented [IESBA350]: 290.123

Common Interests in Closely-Held Entities

- R520.7** A firm, a network firm, an audit [or review](#) team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-

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held entity when an audit [or review](#) client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

- (a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable; and the client;
- (b) The financial interest is immaterial to the investor or group of investors; and
- (c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

Buying Goods or Services

520.8 A1 The purchase of goods and services from an audit [or review](#) client by a firm, a network firm, an audit [or review](#) team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

520.8 A2 Actions that might eliminate threats created by purchasing goods and services from an audit [or review](#) client include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the audit [or review](#) team.

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Section 521

Family and Personal Relationships

Introduction

- 521.1 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.
- 521.2 Family or personal relationships between firm and client personnel might create self-interest, familiarity or intimidation threats.
- 521.3 Section 521 sets out specific requirements and application material relevant to applying the conceptual framework to these family or personal relationships.

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Requirements and Application Material

General

- 521.4 A1 Threats are created by family and personal relationships between an audit or review team member and a director or officer or, depending on their role, certain employees of the audit or review client. Factors that are relevant in evaluating the level of any such threats include:
- The individual's responsibilities on the audit or review team; and
 - The role of the family member or other individual within the client and the closeness of the relationship.

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Immediate Family of an Audit or Review Team Member

- 521.5 A1 Threats are created when an immediate family member of an audit or review team member is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flows.

Commented [IESBA357]: 290.128

- 521.5 A2 Factors that are relevant in evaluating the level of any such threat created include:

Commented [IESBA358]: 290.128

- The position held by the immediate family member.
- The role of the audit or review team member.

- 521.5 A3 An example of an action that might be a safeguards to address the threats set out in paragraph 521.5 A1 is structuring the responsibilities of the audit or review team so that the audit or review team member does not deal with matters that are within the responsibility of the immediate family member.

Commented [IESBA359]: 290.128

An action that might eliminate the threat is removing the individual from the audit or review team.

- R521.6** An individual shall not participate as an audit or review team member when any of that individual's immediate family:

Commented [IESBA360]: 290.127

- Is a director or officer of the audit or review client;
- Is an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion or a conclusion; or

- (c) Was in any such position during any period covered by the engagement or the financial statements.

Close Family of Audit [or Review](#) Team Member

521.7 A1 Threats are created when a close family member of an audit [or review](#) team member is:

- (a) A director or officer of the audit [or review](#) client; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion [or a conclusion](#).

Commented [IESBA361]: 290.129

521.7 A2 Factors that are relevant in evaluating the level of threats created by the relationships set out in paragraph 521.7 A1 include:

- The nature of the relationship between the audit [or review](#) team member and the close family member.
- The position held by the close family member.
- The role of the audit [or review](#) team member.

Commented [IESBA362]: 290.129

521.7 A3 An example of an action that might be a safeguard to address threats created by the relationships set out in paragraph 521.7 A1 is structuring the responsibilities of the audit [or review](#) team so that the audit [or review](#) team member does not deal with matters that are within the responsibility of the close family member.

Commented [IESBA363]: 290.129

An action that might eliminate threats created by those relationships is removing the individual from the audit [or review](#) team.

Other Close Relationships of Audit [or Review](#) Team Member

R521.8 An audit [or review](#) team member shall consult in accordance with firm policies and procedures if the audit [or review](#) team member has a close relationship with an individual who is not an immediate or close family member, but who is:

Commented [IESBA364]: 290.130

- (a) A director or officer of the audit [or review](#) client; or an employee in a position to exert significant influence over the preparation of the client's accounting records; or
- (b) The financial statements on which the firm will express an opinion [or a conclusion](#).

521.8 A1 Factors that are relevant in evaluating the level of threats created by such relationships include:

Commented [IESBA365]: 290.130

- The nature of the relationship between the individual and the audit [or review](#) team member.
- The position the individual holds with the client.
- The role of the audit [or review](#) team member.

521.8 A2 An example of an action that might be a safeguard to address threats created by close relationships of audit [or review](#) team members is structuring the responsibilities of the audit [or review](#) team so that the audit [or review](#) team member does not deal with matters that are within the responsibility of the individual with whom the audit [or review](#) team member has a close relationship.

Commented [IESBA366]: 290.130

An action that might eliminate threats created by such relationships is removing the [professional-assurance practitioner](#) from the audit [or review](#) team.

Relationships of Partners and Employees of the Firm

R521.9 Partners and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

Commented [IESBA367]: 290.131

- (a) A partner or employee of the firm who is not an audit [or review](#) team member; and
- (b) A director or officer of the audit [or review](#) client or an employee of the audit [or review](#) client in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion [or a conclusion](#).

521.9 A1 Factors that are relevant [in](#) evaluating the level of any threat created by such relationships include:

Commented [IESBA368]: 290.131

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client.
- The interaction of the partner or employee of the firm with the audit [or review](#) team.
- The position of the partner or employee within the firm.
- The position the individual holds with the client.

521.9 A2 Examples of actions that might be safeguards to address threats created by such relationships include:

Commented [IESBA369]: 290.131

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit [or review](#) engagement.
- Having an [additional assurance practitioner-professional-accountant](#) review the relevant audit [or review](#) work performed.

Section 522

Recent Service with an Audit [or Review](#) Client

Introduction

- 522.1 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.
- 522.2 Self-interest, self-review or familiarity threats might be created if an audit [or review](#) team member has recently served as a director or officer, or employee of the audit [or review](#) client.
- 522.3 Section 522 sets out specific requirements and application material relevant to applying the conceptual framework in circumstances where audit [or review](#) team members have served with an audit [or review](#) client.

Commented [IESBA370]: New paragraph

Commented [IESBA371]: 290.141

Commented [IESBA372]: New paragraph

Requirements and Application Material

R522.4 The audit [or review](#) team shall not include an individual who, during the period covered by the audit [or review](#) report:

Commented [IESBA373]: 290.142

- (a) Had served as a director or officer of the audit [or review](#) client; or
- (b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion [or a conclusion](#).

522.5 A1 Self-interest, self-review or familiarity threats might be created if, before the period covered by the audit [or review](#) report, an audit [or review](#) team member:

Commented [IESBA374]: 290.143

- (a) Had served as a director or officer of the audit [or review](#) client; or
- (b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or financial statements on which the firm will express an opinion [or a conclusion](#).

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current audit [or review](#) engagement.

522.5 A2 Factors that are relevant in evaluating the level of any threats created by such recent service with an audit [or review](#) client include:

Commented [IESBA375]: 290.143

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the audit [or review](#) team member.

522.5 A3 An example of an action that might be a safeguard to address the threats set out in paragraph 522.5 A1 is conducting a review of the work performed by the individual as an audit [or review](#) team member.

Commented [IESBA376]: 290.143

Section 523

Serving as a Director or Officer of an Audit [or Review](#) Client

Introduction

523.1 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.

Commented [IESBA377]: New paragraph

523.2 [\[Amended by the NZAuASB. Refer to NZ523.2\]](#)

[NZ 523.2](#) Self-review and self-interest threats are created if a partner or employee of the firm or a network firm serves as a director or officer of an audit [or review](#) client, [or as a liquidator or receiver of an audit or review client](#).

Commented [IESBA378]: 290.144

523.3 Section 523 sets out specific requirements and application material relevant to applying the conceptual framework in these circumstances.

Commented [IESBA379]: New paragraph

Requirements and Application Material

R523.4 [\[Amended by the NZAuASB. Refer to NZR523.4\]](#)

[NZ R523.4](#) A partner or employee of the firm or a network firm shall not serve as a director, ~~or~~ officer, liquidator or receiver of an audit [or review](#) client of the firm.

Commented [IESBA380]: 290.144

R523.5 A partner or employee of the firm or a network firm shall not serve as Company Secretary for an audit [or review](#) client of the firm, unless:

Commented [IESBA381]: 290.146

- (a) This practice is specifically permitted under local law, professional rules or practice;
- (b) Management makes all relevant decisions; and
- (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

523.5 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. (More information on providing non-assurance services to an audit [or review](#) client is set out in Section 600 - *Provision of Non-assurance Services to an Audit [or Review](#) Client*.)

Commented [IESBA382]: 290.145

Section 524

Employment with an Audit Client

Introduction

- 524.1 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.
- 524.2 Employment relationships between former partners or employees of a firm or a network firm and an audit [or review](#) client might create familiarity or intimidation threats.
- 524.3 Section 524 sets out specific requirements and application material relevant to applying the conceptual framework to these employment relationships.

Commented [IESBA383]: New paragraph

Commented [IESBA384]: 290.132

Commented [IESBA385]: New paragraph

Requirements and Application Material

General

- 524.4 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an audit [or review](#) team member or partner of the firm or a network firm:

Commented [IESBA386]: 290.132

- A director or officer of the audit [or review](#) client.
- An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion [or a conclusion](#).

- R524.5 The firm shall ensure that no significant connection remains between the firm or a network firm and:

Commented [IESBA387]: 290.133

- (a) A former partner who joins an audit [or review](#) client of the firm; or
- (b) A former audit [or review](#) team member who joins the audit [or review](#) client, if either has joined the audit [or review](#) client as:

- (i) A director or officer; or
- (ii) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion [or a conclusion](#).

- 524.5 A1 A significant connection remains between the firm or a network firm and the individual, unless:

Commented [IESBA388]: 290.133

- (a) The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;
- (b) Any amount owed to the individual is not material to the firm or the network firm; and
- (c) The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.

- 524.5 A2 Even if the requirements of paragraph R524.5 are met, familiarity or intimidation threats might still be created. Factors that are relevant in evaluating the level of any such threats created include:

Commented [IESBA389]: 290.134

- The position the individual has taken at the client.

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- Any involvement the individual will have with the audit [or review](#) team.
- The length of time since the individual was an audit [or review](#) team member or partner of the firm or network firm.
- The former position of the individual within the audit [or review](#) team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

524.5 A3 Examples of actions that might be safeguards to address threats created by such employment relationships include:

- Modifying the audit [or review](#) plan.
- Assigning individuals to the audit [or review](#) team who have sufficient experience relative to the individual who has joined the client.
- Having an [additional assurance practitioner](#) review the work of the former audit team member.

Commented [IESBA390]: 290.134

524.6 A1 The requirement to apply the conceptual framework also applies if, prior to an entity becoming an audit [or review](#) client of the firm, a former partner of the firm or network firm has joined the entity as:

- A director or officer; or
- An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion [or a conclusion](#).

Commented [IESBA391]: 290.135

R524.7 A firm or network firm shall have policies and procedures that require audit [or review](#) team members to notify the firm or network firm when entering employment negotiations with an audit [or review](#) client.

Commented [IESBA392]: 290.136

524.7 A1 A self-interest threat is created when an audit [or review](#) team member participates in the audit [or review](#) engagement while knowing that the audit [or review](#) team member will, or might, join the client at some time in the future.

Commented [IESBA393]: 290.136

524.7 A2 An example of an action that might be a safeguard to address threats set out in paragraph 524.7 A1 is having an appropriate [professional assurance practitioner](#) review any significant judgments made by that individual while on the team.

Commented [IESBA394]: 290.136

An action that might eliminate such threats is removing the individual from the audit [or review](#) team.

Audit [or Review](#) Clients that are Public Interest Entities

Key Audit [or Key Assurance Partners](#)

R524.8 Subject to paragraph R524.10, if an individual who was a key audit [or key assurance](#) partner with respect to an audit [or review](#) client that is a public interest entity joins the client as:

- A director or officer; or
- An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion [or a conclusion](#),

Commented [SW395]: This requirement is applicable to audit and review engagements. Key assurance partner is a defined term in extant PES1. Does the Board agree that it is appropriate to make this change?

Commented [IESBA396]: 290.137

independence is compromised unless, subsequent to the individual ceasing to be a key audit [or key assurance](#) partner:

- (i) The audit [or review](#) client has issued audited financial statements covering a period of not less than twelve months; and
- (ii) The individual was not an audit [or review](#) team member with respect to the audit [or review](#) of those financial statements.

Chief Executive of the Firm

R524.9 Subject to paragraph R524.10, if an individual who was the Chief Executive, or equivalent, of the firm or a network firm joins an audit [or review](#) client that is a public interest entity as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion [or a conclusion](#),

independence is compromised, unless twelve months have passed since the individual was the Chief Executive or equivalent of the firm or network firm.

Business Combinations

R524.10 As an exception to paragraphs R524.8 and R524.9, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

- (a) The position was not taken in contemplation of the business combination;
- (b) Any benefits or payments due to the former partner from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm or network firm;
- (c) The former partner does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and
- (d) The firm discusses the position held with the audit [or review](#) client by the former partner with those charged with governance.

Commented [IESBA397]: 290.138

Commented [IESBA398]: 290.139

Section 525

Temporary Personnel Assignments

Introduction

525.1 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.

Commented [IESBA399]: New paragraph

525.2 The loan of personnel by a firm or a network firm to an audit [or review](#) client might create self-review threats.

Commented [IESBA400]: 290.140

525.3 Section 525 sets out specific requirements and application material relevant to applying the conceptual framework to loans of firm or network firm personnel to an audit [or review](#) client.

Commented [IESBA401]: New paragraph

Requirements and Application Material

525.4 A1 Examples of actions that might be safeguards to address any threats created by the loan of personnel by a firm or a network firm to an audit [or review](#) client include:

Commented [IESBA402]: 290.140

- Conducting an additional review of the work performed by the loaned personnel.
- Not including the loaned personnel as an audit [or review](#) team member.
- Not giving the loaned personnel audit [or review](#) responsibility for any function or activity that the personnel performed during the loaned personnel assignment.

R525.5 A firm or network firm shall not loan personnel to an audit [or review](#) client unless:

Commented [IESBA403]: 290.140

- (a) Such assistance is provided only for a short period of time;
- (b) The personnel are not involved in providing non-assurance services that would not be permitted under Section 600 and its subsections; and
- (c) The personnel do not assume management responsibilities and the audit [or review](#) client is responsible for directing and supervising the activities of the personnel.

[540 Reserved for Long Association]

[600 Reserved for Non-Assurance Services]

[800 Reserved for Reports that Include a Restriction on Use and Distribution]

[900 Reserved for Part 4B - Independence for Other Assurance Engagements]

GLOSSARY^f

In the *International Code of Ethics for Professional Accountants (including International Independence Standards)*, the singular shall be construed as including the plural as well as the reverse, and the following expressions have the following meanings assigned to them.

In this Glossary, defined terms are shown in regular font; italics are used for described terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms. References are also provided to terms described in the Code.

Acceptable level*	A level at which an an assurance practitioner-professional accountant using the reasonable and informed third party test would likely conclude that the accountant-assurance practitioner complies with the fundamental principles.
Advertising	The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.
[NZ] Assurance client	An entity in respect of which a firm conducts an assurance engagement.
Assurance client	The responsible party that is the person (or persons) who: (a) — In a direct reporting engagement, is responsible for the subject matter; or (b)(a) In an assertion-based engagement, is responsible for the subject matter information and might be responsible for the subject matter.
Assurance engagement	An engagement in which an an assurance practitioner-professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. (For guidance on assurance engagements, see the Explanatory Guide EG Au1, International Framework for Assurance Engagements-Overview of Auditing and Assurance Standards , issued by the International Auditing and Assurance Standards Board. The International Framework for Assurance Engagements which describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Auditing (New Zealand) (ISAs (NZ)), International Standards on Review Engagements (New Zealand) (ISREs (NZ)), New Zealand Standard on Review Engagements (NZ SRE) , and International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ), and Standards on Assurance Engagements (SAEs) apply.)
[NZ] Assurance Practitioner	A person or an organisation, whether in public practice, industry, commerce of the public sector, appointed or engaged to undertake assurance engagements.

^f Most of the definitions and descriptions in this Glossary were brought forward from the extant Code. However, the definitions and descriptions with:

- One asterisk "*" were developed revised as part of Phase 1 of the Safeguards project.
- Two asterisks "*" have been brought forward to the Glossary from the body of the Code. When applicable, those definitions and descriptions include a comment box referring readers to the relevant material in the extant Code.

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

[NZ] Assurance team

- (a) All members of the engagement team for the assurance engagement;
- (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.

Audit** In Part 4A, the term "audit" also refers to "review." [Deleted by the NZAuASB]

[NZ] Audit client An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity 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 listed entity 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. (See also paragraph R400.20.)

In Part 4A, the term "audit client" also refers to "review client."

Audit engagement A reasonable assurance engagement in which an assurance practitioner professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing (New Zealand). This includes a Statutory Audit, which is an audit required by legislation or other regulation.

In Part 4A, the term "audit engagement" also refers to "review engagement."

Audit report** In Part 4A, the term "audit report" also refers to "review report." [Deleted by the NZAuASB]

Audit team

- (a) All members of the engagement team for the audit engagement;
- (b) All others within a firm who can directly influence the outcome of the audit engagement, including:

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Commented [IESBA405]: 290.3

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

In Part 4A, the term "audit team" also refers to "review team."

Close family	A parent, child or sibling who is not an immediate family member.
Conceptual Framework	<i>This term is described in Section 120.</i>
Contingent fee	A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.
Cooling-off period**	<i>This term is described in paragraph R540.6 for the purposes of paragraphs R540.10 to R540.19 A1.</i>
Direct financial interest	A financial interest: <ul style="list-style-type: none"> (c) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or (d) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which might vary from jurisdiction to jurisdiction.
Eligible audit or review engagement**	<i>This term is described in paragraph R800.3 for the purposes of Section 800.</i>
Eligible assurance engagement**	<i>This term is described in paragraph R999.3 for the purposes of Section 999.</i>
Engagement partner	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who,

where required, has the appropriate authority from a professional, legal or regulatory body. Engagement partner should be read as referring to their public sector equivalents where relevant.

Commented [SW406]: Wording included in footnote in extant PES1.

Engagement Period**
(Audit and Review)

The engagement period starts when the audit or review team begins to perform audit or review services. The engagement period ends when the audit or review report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit or review report

Commented [IESBA407]: 290.30

Engagement Period**
(Other Assurance Engagements)

The engagement period starts when the assurance team begins to perform assurance services. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

Commented [IESBA408]: 291.30

Engagement quality control review

A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgments the engagement team made and the conclusions it reached in formulating the report.

Engagement team

All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.

The term "engagement team" also excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), *Using the Work of Internal Auditors*.

Existing accountant

An professional accountant in public practice currently holding an audit or review appointment or carrying out accounting, taxation, consulting or similar professional non-assurance services for a client.

External expert

An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant assurance practitioner in obtaining sufficient appropriate evidence.

Financial interest

An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

Financial statements

A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a

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complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.

Financial statements on which the firm will express an opinion or a conclusion

In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.

Firm

- (a) A sole practitioner, partnership or corporation ~~of professional accountants~~ undertaking assurance engagements;
- (b) An entity that controls such parties, through ownership, management or other means; and
- (c) An entity controlled by such parties, through ownership, management or other means.

Paragraphs 400.4 and 900.3 explain how the word “firm” is used to address the responsibility of ~~professional accountants~~ assurance practitioners and firms for compliance with Parts 4A and 4B, respectively.

[NZ] FMC reporting entity considered to have a higher level of public accountability

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:

- Under section 461K of the Financial Markets Conduct Act 2013; or
- By notice issued by the Financial Markets Authority (FMA) under section 461L(1)(1) of the Financial Markets Conduct Act 2013.

Fundamental Principles *These terms are described in paragraphs:*

<i>Integrity</i>	<i>R111.1</i>
<i>Objectivity</i>	<i>R112.1</i>
<i>Professional competence and due care</i>	<i>R113.1</i>
<i>Confidentiality</i>	<i>R114.1</i>
<i>Professional behaviour</i>	<i>R115.1</i>

Historical financial information

Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

Immediate family

A spouse (or equivalent) or dependent.

Independence

Independence comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise

professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit, review or assurance team member's, integrity, objectivity or professional skepticism has been compromised.

As set out in paragraphs 400.5 and 900.4, references to an individual or firm being "independent" mean that the individual or firm has complied with Parts 4A and 4B, as applicable.

Indirect financial interest A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.

Key audit partner The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, audit partners responsible for significant subsidiaries or divisions.

[NZ] Key assurance partner 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 judgments on significant matters with respect to the assurance engagement.

Listed entity An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body. [Deleted by the NZAuASB]

May** *This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement.*

Might** *This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken.*

Network A larger structure:

- (a) That is aimed at co-operation; and
- (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

Network firm A firm or entity that belongs to a network.

For further information see paragraphs 400.50 A1 to 400.54 A1.

Non-compliance with laws and regulations
~~(Professional Accountants in Business)**~~

Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- ~~(a) The professional accountant's employing organization;~~
- ~~(b) Those charged with governance of the employing organization;~~
- ~~(c) Management of the employing organization; or~~
- ~~(d) Other individuals working for or under the direction of the employing organization. [Deleted by the NZAuASB]~~

Commented [SW409]: PAIBs not relevant to PES1

Non-compliance with laws and regulations
~~(Professional Accountants in Public Practice)**~~

Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- (a) A client;
- (b) Those charged with governance of a client;
- (c) Management of a client; or
- (d) Other individuals working for or under the direction of a client.

[NZ] Offer document

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.

Office

A distinct sub-group, whether organized on geographical or practice lines.

Predecessor
~~accountant/assurance practitioner**~~

An ~~assurance practitioner~~ professional accountant in public practice who most recently held an audit or review appointment or carried out accounting, taxation, consulting or similar ~~professional non-assurance~~ services for a client, where there is no existing ~~accountant/assurance practitioner~~.

Commented [SW410]: Not a defined term in extant PES1 but "predecessor assurance practitioner" is used throughout PES1

Professional accountant

An individual who is a member of an IFAC member body.

In Part 1, the term "professional accountant" refers to professional accountants in business and to professional accountants in public practice and their firms.

In Part 2, the term "professional accountant" refers to professional accountants in business.

In Parts 3, 4A and 4B, the term "professional accountant" refers to professional accountants in public practice and their firms. [Deleted by the NZAuASB]

Professional accountant in business

A professional accountant working in areas such as commerce, industry, service, the public sector, education, the not for profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner manager or volunteer. [Deleted by the NZAuASB]

AGREED-IN-PRINCIPLE TEXT – STRUCTURE AND SAFEGUARDS PHASE 1

Professional accountant in public practice	A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice. [Deleted by the NZAuASB]
Professional activity	An activity requiring accountancy or related skills undertaken by an <u>assurance practitioner</u> professional accountant , including accounting, auditing, taxation, management consulting, and financial management.
Professional services	Professional activities performed for clients.
Proposed <u>accountant assurance practitioner</u> **	An <u>assurance practitioner</u> professional accountant in public practice who is considering accepting an audit <u>or review</u> appointment or an engagement to perform accounting, taxation, consulting or similar professional non-assurance services for a prospective client (or in some cases, an existing client).
<u>[NZ] Public benefit entity</u>	<u>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 support that primary objective rather than for a financial return to equity holders.</u>
<u>[NZ] public interest entity</u>	<u>Any entity that is required or opts to prepare financial statement to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting requirements in accordance with XRB A1².</u>
Public interest entity	(a) — A listed entity; or (b) — 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 that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator. Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.
Reasonable and Informed Third Party* Reasonable and Informed Third Party Test*	The reasonable and informed third party test is a consideration by the professional accountant assurance practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, weighs all the relevant facts and circumstances that the accountant assurance practitioner knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant assurance practitioner, but would possess the relevant knowledge

Commented [IESBA411]: 120.5 A1

² XRB A1, Application of the Accounting Standards Framework

and experience to understand and evaluate the appropriateness of the ~~accountant's~~ assurance practitioner's conclusions in an impartial manner.

Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"> (a) An entity that has direct or indirect control over the client if the client is material to such entity; (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; (c) An entity over which the client has direct or indirect control; (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and (e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.
Review client	An entity in respect of which a firm conducts a review engagement.
Review engagement	<p>An assurance engagement, conducted in accordance with International Standards on Review Engagements (New Zealand) 2400 or New Zealand Standard on Review Engagements 2410 or equivalent, in which an an assurance practitioner-professional accountant-in-public-practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's assurance practitioner's attention that causes the accountant assurance practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.</p>
Review team	<ul style="list-style-type: none"> (a) All members of the engagement team for the review engagement; and (b) All others within a firm who can directly influence the outcome of the review engagement, including: <ul style="list-style-type: none"> (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Chief Executive, (Senior or Managing Partner or equivalent); (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and

AGREED-IN-PRINCIPLE TEXT – STRUCTURE AND SAFEGUARDS PHASE 1

- (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and
- (c) All those within a network firm who can directly influence the outcome of the review engagement.

Safeguards* *Safeguards are actions, individually or in combination that the ~~professional accountant~~ assurance practitioner takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.*

Commented [IESBA412]: 120.10 A1

Senior Professional Accountant in Business** *Senior professional accountants in business are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources. Deleted by the NZAuASB*

Commented [IESBA413]: 360.13 NOCLAR

Substantial harm** *This term is described in paragraphs 260.7 A2 and 360.7 A2.*

Commented [IESBA414]: 225.7, 360.7 NOCLAR

Special purpose financial statements Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.

Those charged with governance The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Threats** *These terms are described throughout the Code, including in paragraphs:*

<i>Self Interest</i>	<i>120.6 A3(a)</i>
<i>Self-review</i>	<i>120.6 A3(b)</i>
<i>Advocacy</i>	<i>120.6 A3(c)</i>
<i>Familiarity</i>	<i>120.6 A3(d)</i>
<i>Intimidation</i>	<i>120.5 A3(e)</i>

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NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 8.1
Meeting date: 7 September 2017
Subject: Integrity of Application of ISAEs (NZ)
Date: 25 May 2017
Prepared by: Peyman Momenan

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(Carried forward from the June agenda)

Agenda Item Objectives

For the Board to:

- NOTE the findings of the research into the integrity of the application of ISAEs (NZ) by assurance practitioners that are not professional accountants.

Background

1. The NZAuASB's strategic action plan for 2015/16 included undertaking research to obtain an understanding if additional guidance is required for direct assurance engagements undertaken by New Zealand assurance practitioners. The Board, in its June 2016 meeting, approved to amend the scope to obtain an understanding of assurance engagements, other than audit or review of financial statements, conducted in compliance with or with reference to or that could refer to ISAE (NZ) 3000 (Revised) and/or other NZAuASB standards in the 3000 series. The objective of the research was to seek information about the integrity of the application of ISAE (NZ) 3000 (Revised) and other assurance standards in the 3000 suite.
2. The results of this research are presented in Agenda item 8.2 for the Board's consideration and discussion.
3. This agenda item was also included in the Board's June agenda. However, there was not sufficient time for the Board to consider this item.

Material Presented

Agenda item 8.1	Board Meeting Summary Paper
Agenda item 8.2	The final research report

Contents

Introduction 2

Key Findings 3

Conclusion..... 4

Introduction

1. ISAE (NZ) 3000 (Revised) allows assurance practitioners other than accountants who may comply with a different set of professional ethical and quality control requirements to undertake assurance engagements in compliance with ISAE (NZ) 3000 (Revised). However, they can only claim compliance with the standard if the ethical and professional requirements they comply with are at least as demanding as the requirements in PES -1. Some countries (e.g. Australia) only allow those assurance practitioners, who comply with the professional and ethical requirements issued (primarily) for professional accountants, to undertake an assurance engagement using the ISAE 3000 equivalent standard in their jurisdiction. The New Zealand approach is consistent with the IAASB's approach in this regard.
2. However, little is known about how assurance practitioners who are not professional accountants (or part of a professional accounting firm) apply the IAASB's assurance standards in practice. Concerns have been raised in relation to the integrity of application of the IAASB's assurance standards. The NZAuASB has raised similar concerns.
3. The objective of this research was to seek information about the integrity of the application of ISAE (NZ) 3000 (Revised) and other assurance standards in the 3000 suite.
4. The results of the research are to be used to:
 - identify the need for guidance to be developed (specifically in respect of quality control and ethical requirements) for assurance practitioners that are not professional accounts; and
 - inform the IAASB of the use of the ISAE 3000 suite of standards in New Zealand.
5. A combination of methods was used in undertaking this research, including:
 - interviewing a sample of non-accountant assurance practitioners;
 - interviewing All of Government (AoG) Consultancy Services;
 - reviewing information available via the websites of non-accountant assurance practitioners; and
 - reviewing New Zealand and international research literature.

Key Findings

1. The non-accountant's application of ISAE (NZ) 3000 (Revised) and other assurance standards in the 3000 suite can be categorised as follows.
 - (a) It is formally communicated (e.g. in engagement letters, assurance reports, finding reports etc.) to intended users and/or engaging parties that the engagement is undertaken in compliance with ISAE (NZ) 3000 (Revised).
 - (b) It is formally communicated to intended users and/or engaging parties that the engagement is undertaken in accordance with their own methodology which is based on the principles and processes set out in relevant international auditing standards including ISAE (NZ) 3000 (Revised) together with other auditing standards such as ISO 19001, AS/NZ5911, AA1000 AS etc.
 - (c) The assurance practitioner may refer to ISAE (NZ) 3000 in conducting their assurance work, but only as a source of information, and they do not mention ISAE (NZ) 3000 in any of their communications to their clients.
 - (d) The assurance practitioner is aware of ISAE (NZ) 3000 but hardly ever use them.
 - (e) They have not heard of ISAE (NZ) 3000 and other assurance standards issued by the NZAuASB.
2. Non-assurance practitioners who compete with professional accounting firms in providing assurance over information that is generally included in companies' annual reports (e.g. sustainability reports, environmental impact, governance and culture etc.) are the most likely group of assurance practitioners to undertake their engagement in accordance with ISAE 3000. However, all of the assurance practitioner in this group (e.g. ERM, Tonkin and Taylor, SGS, Intertek, DNV (Det Norske Veritas), Bureau Veritas, RINA (Registro Italiano Navale), and the TÜVs (Technischer Überwachungsverein) fall into category (b) and none in (a). The response received from ERM explains the reason for this.

“we state that our methodology is based on ISAE 3000 rather than ‘in accordance with’ - this is due to the revised requirements on governance and quality for non-accounting firms in the revised standard.”
3. The further an assurance practitioner's speciality domain is from the domains with strong competition from professional accountants, the less likely it is for the assurance practitioner to refer to ISAE 3000. This relationship is demonstrated in Appendix 1.
4. A significant portion of demand for assurance over domains other than matters typically included in a company's annual report is coming from government agencies. Our interviews with the assurance practitioners (such as those providing probity audits and other supply chain assurance reports, service provider audits, IT and information security audits, business case and project assurance engagements,

waste management and environmental impact assurance engagements, etc.) indicate that the assurance providers are unlikely to mention ISAE 3000 standards in their communications with the government agency representatives because:

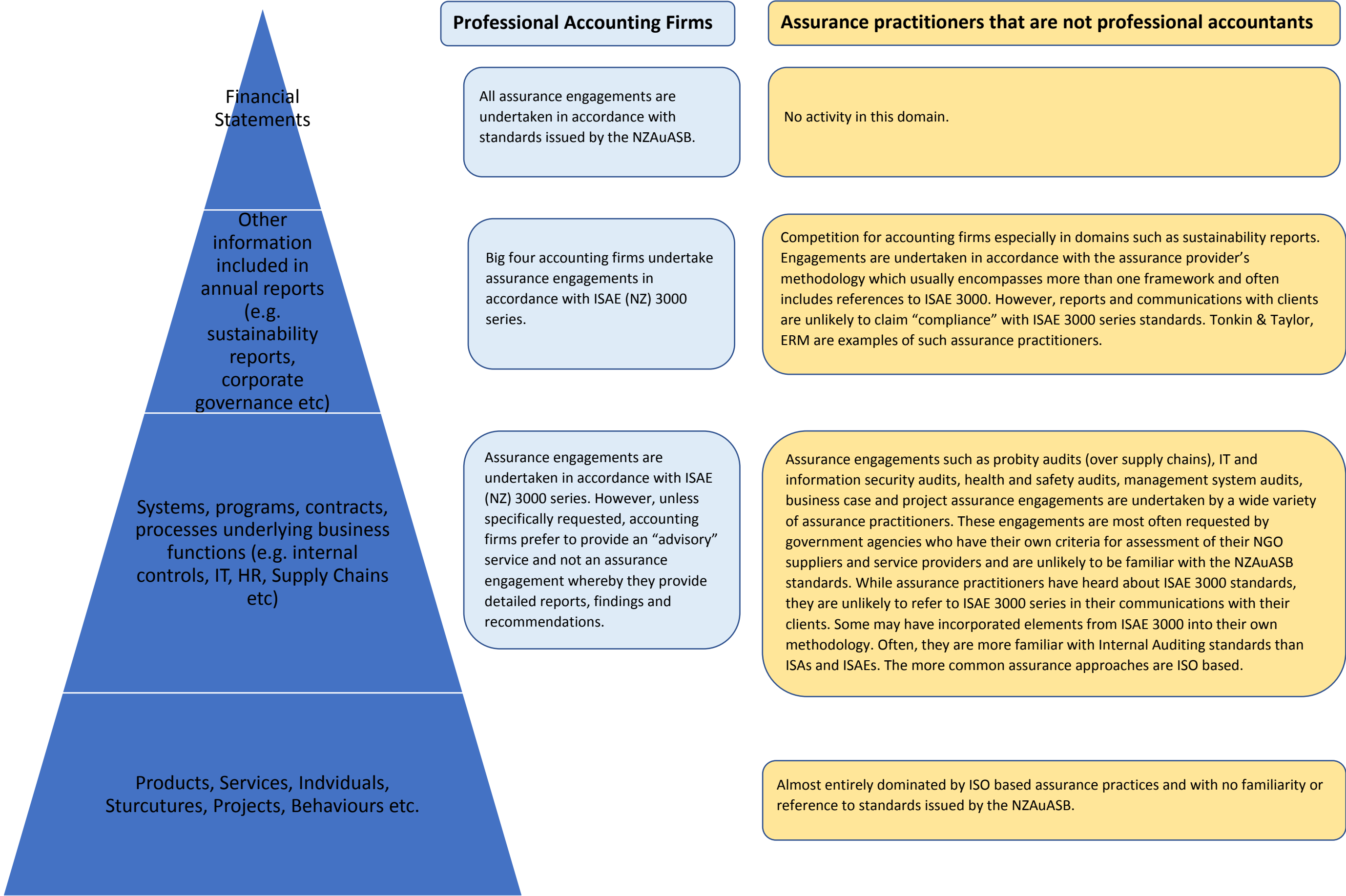
- (a) The government agency representatives are not familiar with standards issued by the NZAuASB. They are familiar with standard setting organisations in their own domain of expertise (e.g. ISO standards).
- (b) The type of reporting prescribed by ISAE 3000 is unlikely to meet the needs of the users of such reports.

The above finding is consistent with the big four accounting firms' approach to scope engagements with their clients as an "advisory service" and not an assurance engagement unless:

- (c) the engagement is a statutory assurance engagement required to be undertaken in accordance with the NZAuASB assurance standards;
- (d) the engagement is intended for the benefit of parties that cannot be involved in the scoping of the engagement.

Conclusion

- 5. The non-accountant's application of standards issued by the NZAuASB is not in a manner that negatively affects the integrity of the standards. There are no significant demands from non-accounting practitioners for the NZAuASB to develop guidance or other similar documents.
- 6. We have added those non-accountants, who refer to ISAE (NZ) 3000 in the assurance report, to our database of constituents to engage with in future in relation to this standard.



NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 9.1

Meeting date: 6 September 2017

Subject: Modified audit reports

Date: 23 August 2017

Prepared by: Peyman Momenan

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Objective

For the Board to note the summary of modified audit reports received by the XRB between 1 July 2015 to 31 July 2017, and agree that there are no implications for the auditing standards.

Introduction

1. In September 2016, the XRB approved a policy for dealing with modified audit reports received under the Companies Act 1993 and the Financial Markets Conduct Act 2013. The policy requires the NZAuASB to consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any issue about the appropriateness, applicability, clarity and/or completeness of the relevant standards.
2. In December 2016, the policy was supplemented by an operating procedure (OP) document including specific actions that the XRB and its boards (including the NZAuASB) need to take to operationalise the policy. The OP requires the NZAuASB staff to review the received modified audit reports in order to:
 - Categorise those modified audit opinions that affect auditing & assurance standards
 - Identify trends, if any
 - Refer any strategy-related issues to the XRB Board staff team, as appropriate
 - Make appropriate recommendations to the NZAuASB, as necessary.
3. The OP requires staff to report to the NZAuASB at least every 6 months on matters including:
 - the number of audit reports received
 - the types of modified audit opinions
 - the nature/subject matter of the modified opinions
 - whether the modified audit opinions have implications for any XRB standards and/or XRB strategy/standards frameworks
 - any emerging trends.

4. The Board had previously seen a summary of modified audit reports up to June 2015 at the December 2015 meeting. This report is a catch up for the modified audit reports received since. This report is the first report under the XRB modified auditor report policy. The next report will be presented in the Board's April 2018 meeting.

Matters to consider

5. We have prepared a summary of the reasons for the qualifications by modification type with a view to consider if there are any implications for the XRB standards. A summary of the reasons for the modified audit reports received from July 2015 to July 2017 is attached at agenda item 9.2.
6. We have not identified any implications for the auditing and assurance standards, and have no recommendations for further action required by the NZAuASB. The NZASB staff has also considered the modified audit reports for any implications to the accounting standards, the results of which was presented to the NZASB at its June meeting. The NZASB has not identified any implications to the accounting standards.

Recommendation

We recommend that the Board agree that there are no implications for the auditing standards.

Material Presented

Agenda item 9.1	Board Meeting Summary Paper
Agenda item 9.2	Summary of modifications

A) Modified Auditor Reports

Modification in relation to	Adverse Opinion	Disclaimer of Opinion	Qualified Opinion		Grand Total	
	Financial statements are materially misstated	Unable to obtain sufficient appropriate audit evidence	Financial statements are materially misstated	Unable to obtain sufficient appropriate audit evidence	Financial statements are materially misstated	Unable to obtain sufficient appropriate audit evidence
Adjustment of prior years' error				2	0	2
Appropriateness of using the Going Concern assumption		3			0	3
Audit Procedures				3	0	3
Cash flow statement			1		1	0
Deferred Income				1	0	1
Deferred Tax and Depreciation of PPE			2		2	0
Discontinued operations		1			0	1
Inaccurate and incomplete accounting records		2			0	2
Internal controls over revenue				1	0	1
Prior year qualification				1	0	1
Valuation of share-based payments				1	0	1
Valuation of biological assets		5	4	3	4	8
Valuation of financial assets		1	1	2	1	3
Valuation of intangible assets				2	0	2
Valuation of Investment in associated entities	1			2	1	2
Valuation of non-current assets		1		1	0	2
Total	1	13	8	19	9	32

B) Auditor reports not modified but submitted due to a breach of law:

Not preparing the financial statements within five months from the balance date: 8

Auditor reports statistics for the period from 1 July 2015 to 31 July 2017:

Total number of modified audit reports received during the period:	41
Total number of audit report received only due to breach of law	8
Total number of audit reports received during the period	49



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 24 August 2017

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

FROM: Peyman Momenan

SUBJECT: International Update

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 July and August 2017.

International Federation of Accountants (IFAC)

1. IFAC and the International Integrated Reporting Council published [Creating Value for SMEs through Integrated Thinking](#) in August 2017. This publication is aimed to help small- and medium-sized entities (SMEs), including non-profits, adopt integrated reporting and realize its benefits. It will also help users understand the benefits of using the International Integrated Reporting Framework, including the flexibility of its principles-based structure and approach.

International Auditing and Assurance Standards Board (IAASB)

1. Following the US Public Company Accounting Oversight Board (PCAOB)'s recent release of AS 3101, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, the IAASB's Auditor Reporting Implementation Working Group has prepared a comparison between the IAASB and PCAOB standards. These publications will help improve understanding of the key aspects of the standards from both organizations.

These are presented in two formats: [long form](#), which describes the similarities and differences between the standards, and a [table](#), which provides a summary.

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 issued a publication titled [Toward Enhanced Professional Skepticism](#) 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.

3. On 1 August 2017, the IAASB released its [Proposed International Standard on Auditing 540 \(Revised\), Auditing Accounting Estimates and Related Disclosures](#). This proposed standard:
 - enhances requirements for risk assessment procedures to include specific factors related to accounting estimates, namely complexity, judgment, and estimation uncertainty;
 - sets a more detailed expectation for the auditor's response to identified risks related to accounting estimates, including augmenting the auditor's application of professional skepticism; and
 - is scalable regardless of the size or sector of the business or audit firm.
4. IAASB Ongoing projects (refer to appendix 1)

Public Interest Oversight Board of IFAC (PIOB)

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

International Ethics Standards Board for Accountants (IESBA)

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.

International Integrated Reporting Council (IIRC)

1. See under IFAC.

International Forum of Independent Audit Regulators (IFIAR)

1. IFIAR published a report titled [Audit Committees and Audit Quality: Trends and Possible Areas for Further Consideration](#) in July 2017. This IFIAR paper provides information with the aim of developing a better understanding of how audit committees function under existing requirements. It also raises questions and identifies areas for further consideration that might provoke discussion among interested parties, such as investors, audit committee members, (audit) regulators and policymakers and also lead to improvement in individual jurisdictions, e.g. on whether audit regulators should share their inspection findings directly with audit committees.

International Organization of Supreme Audit Institutions (INTOSAI)

1. From 20 to 21 July 2017, IDI and the United Nations (UN) jointly held the "Supreme Audit Institution Leadership and Stakeholder Meeting", which focused on "Auditing Preparedness for the Implementation of the Sustainable Development Goals (SDGs)" and took place at the UN headquarters in New York.
In the framework of this meeting, high-ranking representatives of SAIs and of important stakeholders engaged in an exchange of knowledge and experiences on topical themes and concerns related to the role of SAIs in reviewing the national implementation of SDGs.

Global Reporting Initiative (GRI)

1. On 17 and 18 July, high-level representatives from United Nations member states, inter-governmental agencies, non-governmental organizations and the private sector, gathered in New York to discuss how to 'eradicate poverty and promote prosperity in a changing world'.

This annual gathering of the United Nations' high-level political forum (HLPF) is organized under the auspices of the Economic and Social Council, to monitor yearly progress on the 2030 Agenda for Sustainable Development. As part of the annual review process, UN member states are encouraged to conduct voluntary country-level analyses of the actions taken to achieve the 17

Sustainable Development Goals (SDGs). This year, 43 countries presented their voluntary national reviews (VNRs) to the HLPF. GRI took this opportunity to investigate how the private sector in particular has been included in these reviews, and in the national-level implementation of the SDGs. GRI identified three emerging trends on the private sector role in the 2030 Agenda:

Involvement in SDG planning and implementation

Countries are increasingly acknowledging the significant role companies can play to help meet the SDGs. This was the most encouraging trend observed in our analysis of the 43 reports, which showed that 93% of the countries had consulted the private sector in reviewing their national strategy and progress on the SDGs. In addition, 68% of the reports also recognized private investment as a crucial alternative means to complement public expenditure on the SDGs, and 43% of the reports stated efforts made by the country to develop more public-private partnerships on SDG implementation.

Specific country-level initiatives

Among the countries participating in the VNRs, several highlighted concrete actions undertaken with the private sector for achieving the SDGs. Denmark, for instance, included a chapter in the report written by businesses themselves; Sweden cited the development of a special national policy for CSR and reporting; and Luxembourg developed a national platform to exchange information and knowledge and created an inventory of SDG-related actions. A similar national platform has also been implemented by Brazil and Bangladesh. These country-specific initiatives serve as good examples of practices that can be taken up in different national contexts in the coming future to accelerate SDG progress.

Corporate social responsibility and SDG Target 12.6

Corporate social responsibility (CSR) and sustainability reporting were mentioned in 59% of the voluntary national reviews when referring to private sector involvement with the SDGs. This is a good indication of success towards SDG Target 12.6 which “encourages companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle”. The VNRs show that Member States are increasingly recognizing the significance of Target 12.6 to help monitor and plan SDG implementation through systematic, comparable and transparent corporate reporting.

Businesses too are showing a rapidly growing interest in the SDGs and corporate reporting, with a view to mitigating future risks and availing new opportunities. This was clear from the sizeable attendance of over 1000 participants at the SDG Business Forum at the UN HLPF this year – an outsized demand that prompted organizers to move the event to the well-known colossal UN General Assembly hall.

Australia

The Australian Auditing and Assurance Standards Board (AUASB)

1. Highlights from the July 2017 AUASB meeting include:

- ISA 540 Auditing Accounting Estimates and Related Disclosures Matters relating to the upcoming ISA 540 exposure draft submission were discussed including:
 - feedback from the roundtables (Melbourne, Sydney, Brisbane)
 - discussions held with regulators (including ASIC)
 - messaging and tone (including amendments to wording).

The ISA 540 ED is open for comment until 1 August 2017.

- International Federation of Accountants – update from the President (in camera session) IFAC President Rachel Grimes spoke on the risks and opportunities confronting IFAC, including potential impacts on future of their global independent standard setting boards (including the IAASB).

- ASIC presentation – Audit inspection program report for 2015-16 (in camera session) John Price (Assistant Commissioner) and Doug Niven (Senior Executive Leader – Accountants and Auditors) presented the results from the Audit inspection program report for 2015-16 and discussed its impact on standard setters.
- AUASB Technical Group update – Auditor Reporting Requirements The AUASB Technical Group provided an update on the Auditor Reporting Requirements project, including recent pronouncements and guidance as described in the AUASB July Update. They advised that:
 - auditor reporting will be monitored during the June reporting season with continued implementation support to be provided via the Auditor Reporting FAQs as appropriate
 - planning for the post implementation project will commence in the coming months.

Australian Securities & Investments Commission (ASIC)

1. In late 2016, Wells Fargo was fined US\$100 million by United States regulators after it was found that its staff had systematically and unlawfully opened as many as two million customer accounts since 2011. Many customers incurred fees and other charges as a result.

The misconduct at Wells Fargo involved widespread secret opening of accounts by employees in order hit sales targets spurred by compensation incentives. In most cases, customers were completely unaware that the accounts had been opened.

Although ASIC did not have information to suggest that similar systemic misconduct had been occurring in Australia, in December 2016 ASIC required eight banks to audit their sales practices. The audits were designed to identify whether aggressive sales targets had driven bank staff to act illegally by issuing products without customer knowledge or consent. ASIC required audits of: ANZ, Bank of Queensland, Citibank, Commonwealth Bank, HSBC, NAB, Suncorp and Westpac.

The audits examined processes in relation to three common consumer banking products: basic deposit products, credit cards and CCI from 2014 to 2016. The audits reviewed:

- Account and product onboarding processes, with a focus on customer acknowledgement and account activation controls;
- Details of the processes in place to proactively detect potential misconduct arising from sales incentives;
- Analysis of complaints where customers claimed they had not applied for an account or product;
- Details of internal reporting processes to ensure senior management had visibility of potential issues; and
- Organisational whistleblower processes and protections.

All of the audits found that the systemic misconduct that occurred at Wells Fargo had not been occurring in the banks and that, overall, controls were adequate to prevent and identify misconduct.

However, while systemic illegal misconduct was not identified, the audits highlighted CCI as a standout product for customer complaints and at heightened risk for sale without proper informed customer consent. The audits also identified potential weaknesses in account opening and activation controls, record keeping, and change of address processes in relation to CCI. The banks have commenced enhancing their controls and processes in light of the audit findings.

United Kingdom

Financial Reporting Council (FRC)

1. The FRC's consultation on amendments to its [Guidance on the Strategic Report](#), published in August 2017, encourages businesses to consider the interests of stakeholders.

These proposals reflect the FRC's desire to improve the effectiveness of section 172 of the Companies Act 2006. This section requires a director to have regard to a number of matters including the long-term impact of any decisions, the interests of stakeholders; and non-financial matters in pursuing their duty to promote the long-term success of the company. The FRC is therefore encouraging companies, to provide better information on how companies have fulfilled this duty to improve accountability to shareholders and other stakeholders.

The proposals reflect the enhanced disclosures that certain large companies are required to make in respect of the environment, employees, social matters, respect for human rights and anti-corruption and anti-bribery matters. The guidance also encourages all companies to disclose information on how boards have considered broader stakeholders when taking decisions to promote the long-term success of the company.

2. In the audit regulator's second annual [Developments in Audit](#) report issued today, the FRC sets out evidence from its own and delegated audit quality reviews, thematic reviews and from audit committee and investor feedback.

Leadership of audit firms' focus on, and investment in, improving audit quality, together with promoting a culture of continuous improvement, is beginning to pay off, particularly for audits of larger companies where FRC has targeted improvement. However, the picture is not consistent across all firms, market sectors and audit procedures. High profile accounting failures, as well as the results of audit monitoring, continue to highlight cases where auditors have not met expectations. Whilst there is evidence of greater professional scepticism, this is also the area where the FRC finds the greatest number of issues.

Setting out what is being done to drive improvements to audit quality, the report includes an overview of the FRC's work in setting auditing policy and standards, how the FRC is working to enhance the effectiveness of audit committees, its oversight of the profession, and its audit monitoring and enforcement activity.

The audit market and confidence in it in the UK is changing significantly, with the impact of audit tendering and rotation requirements seeing greater competition on quality between the biggest firms. Greater transparency of audit has been achieved through extended reporting, now being rolled out for more audits. Broadened perspectives on audit quality through the challenge and support of independent non-executives at the larger audit firms ensure a focus on sustained improvement.

Investor and public confidence in audit quality remains vulnerable where circumstances indicate a failure by auditors to be sufficiently independent or to provide robust challenge. The FRC has enhanced its enforcement procedures and is working to improve the speed of action. The FRC has issued more than £14.2 million of sanctions on auditors and audit firms in 2016/17 and sets out the outcomes and lessons to be learnt from concluded investigations.

Institute of Chartered Accountants in England and Wales

1. In August 2017 ICAEW published its report titled "[the start of a conversation: the Extended Audit Reports](#)". Extended auditor reporting was implemented successfully in the UK in 2013. Since 2013, it is interesting to note how far the UK has come: from the short, boilerplate, uninformative report to the extended report covering the Key Audit Matters over a number of pages. However, this is a fragile achievement and everyone involved needs to continue to support informative auditor reporting. All this represents a significant challenge for the profession. There is a real risk of failure, but the prize is worth striving for: clear communication of the value and relevance of auditing.

Association of Chartered Certified Accountants (ACCA)

1. Early in 2017, ACCA carried out global surveys of attitudes to ethics among 10,000 professional and trainee accountants, and of those of over 500 senior ('C-suite') managers. More than 8 in 10 of these accountants around the world were of the view that strong ethical principles and behaviour will become even more important in the evolving digital age. This view was echoed by a similar proportion of C-suite¹ executives, referring to the accountants in their organisations.

Furthermore, 9 in 10 professional accountants agree that ethical behaviour helps to build trust in the digital age. And almost all (95%) C-suite executives think that the accountant's ethical behaviour helps the organisation build trust with internal and external stakeholders.

In order to lend specificity to the analysis of ethics in a digital environment, ethical aspects were identified across six digital themes. These themes were cybersecurity; platform-based business models; big data and analytics; cryptocurrencies and distributed ledgers; automation, artificial intelligence and machine learning; and procurement of technology. The observations are informed by discussions with senior finance professionals, typically at the level of CFO, partner or equivalent. In the context of these digital themes, the IESBA fundamental principle which emerged most frequently as being at risk of compromise was professional competence and due care. This may be a reflection of the extent to which work situations in a digital age can present new information with ethical aspects that have not been seen before.

Looking ahead, it seems likely that risks of ethical compromises go way beyond issues of honest and straightforward professional and business relationships (integrity). For instance, it is difficult to apply ethical judgement to the use of distributed ledgers without a sufficient understanding of what they are.

The professional accountant of the future will need, in addition to technical capability, a rounded skill set that demonstrates key quotients for success in areas such as experience, intelligence, creativity, digital skills, emotional intelligence and vision. And at the heart of these lies the ethical quotient. [See the full report here.](#)

United States of America

Public Company Accounting Oversight Board (PCAOB)

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

American Institute of Certified Public Accountants (AICPA)

1. [Analysis of single audit engagements by AICPA's Peer Review Program](#) has determined that three factors – size of single audit practice, qualifications of the engagement partner and membership in the AICPA's Governmental Audit Quality Center – have a strong correlation to quality performance.

The single audit is a rigorous, organization-wide financial and compliance audit of an entity that expends \$750,000 or more of federal assistance (e.g., awards, grants, loans and loan guarantees). The Peer Review Program last year selected a random sample of single audit engagements for enhanced oversight.

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

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

Canada

Canadian Auditing and Assurance Standards Board (CAASB)

1. Highlights from the July 2017 CAASB meeting include:
 - The Board reviewed comments received from Canadian stakeholders on the AASB's Exposure Draft of proposed revisions to CAS 540, Auditing Accounting Estimates and Related Disclosures. Issues raised by respondents and discussed by the Board included:
 - scalability of the standard for application to estimates of all sizes and complexities;
 - linkage of requirements in CAS 540 to CAS 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment;
 - effect of the proposed risk factors on inherent risk assessment for accounting estimates; and
 - challenges identified during field testing of the proposed standard.

The Board also discussed its draft response letter to the IAASB's Exposure Draft with the same title. A final draft of the response will be reviewed by the Board prior to submission in early August.

Appendix A: IAASB Project and their latest status.

Project	Overview of the project and its current status
<p>Quality Control (No update for this period, remains the same from last international update)</p>	<p>Objective of the Project: 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>Background and current status: 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 project proposals for quality control that were presented at the September 2016 IAASB meeting.</p> <p>The IAASB considered the Quality Control Other Working Group's (QCOWG) proposals in respect of:</p> <ul style="list-style-type: none"> • Setting the objective of an engagement quality control (EQC) Revising the definition of an EQC review; • Determining the scope of the engagements subject to an EQC review; and • The execution of an EQC review. <p>At its March 2017 meeting, the IAASB discussed matters to do with the eligibility of the engagement quality control reviewer.</p> <p>QC-Firm Level</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>QC-Special Considerations for Networks</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"> • 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

Appendix A: IAASB Project and their latest status.

	<p>not to further consider establishing requirements for networks in the IAASB's International standards.</p> <ul style="list-style-type: none"> 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. <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>Quality Control – Engagement Level</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> <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>Group Audits– ISA 600 (No update for this period, remains the same from last international update)</p>	<p>Objective of the project: 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>Background and current status: 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, presented the results 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</p>

Appendix A: IAASB Project and their latest status.

	<p>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>Professional Scepticism (No update for this period, remains the same from last international update)</p>	<p>Objective of the project: To make recommendations on how to more effectively respond to issues related to professional scepticism.</p> <p>Background and current status: 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 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, presented the results 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 here.</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>Accounting Estimates (ISA 540) and Special Audit Considerations Relevant to</p>	<p>Objective of the project: The objective of the financial institutions project is to:</p> <ol style="list-style-type: none"> Clarify and enhance the relationship between the banking supervisors and the bank's external auditors; Consider and address issues of particular significance in audits of financial institutions; and

Appendix A: IAASB Project and their latest status.

<p>Financial Institutions (No update for this period, remains the same from last international update)</p>	<p>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</p> <p>Background and current status: 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> <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. The board reviewed the draft in its June 2016 meeting.</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>Data Analytics (No update for this period, remains the same from last international update)</p>	<p>Objective of the project: 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>Background and current status: 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 update 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</p>

Appendix A: IAASB Project and their latest status.

	and encouraged continued active participation of the Data Analytics Working Group in other current standard-setting projects of the IAASB underway.
Emerging External Reporting (No update for this period, remains the same from last international update)	<p>Objective of the project: The objective of the Integrated Reporting Working Group (IRWG) is to:</p> <ul style="list-style-type: none"> A) Explore emerging developments in integrated reporting and other emerging developments in external reporting; B) Gather further information on the demand for assurance, the scope of the assurance engagement and the key assurance issues; and C) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe. <p>Background and current status: 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 <u>Supporting Credibility and Trust in Emerging Forms of External Reporting</u> 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>
Agreed-Upon Procedures (No update for this period, remains the same from last international update)	<p>The objective of the project is to:</p> <ul style="list-style-type: none"> A) Revise International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information in the Clarity format; and 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. <p>Background and current status: 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, Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's Standards, 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>ISA 315 (Revised) (No update for this period, remains the same from last international update)</p>	<p>The tentative objectives of the projects at this stage are:</p> <ul style="list-style-type: none"> A) to address the issues that have been identified by the ISA Implementation Monitoring project. 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). 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 project proposal was presented and approved in the IAASB's September 2016 meeting. <p>Since the December 2016 IAASB meeting, the task force has had one physical meeting and two teleconferences to develop the March meeting papers.</p> <p>The latest IAASB discussion on this project can be accessed from here.</p>



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 24 August 2017

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

FROM: Peyman Momenan

SUBJECT: Domestic Update

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 July and August 2017.

Financial Markets Authority (FMA)

1. Over 1 million New Zealanders have more than \$15 billion invested in conservative or default KiwiSaver funds, mostly invested in fixed-interest assets, including bonds. However, only four in ten KiwiSaver members surveyed by the FMA knew that most funds invest in bonds.

"This year's Money Week is about what debt can do for you. We thought we'd take a different angle and look at investing in bonds, which is essentially getting a return for lending your money to a government or company," said Paul Gregory, FMA Director External Communications and Investor Capability.

"Some people invest directly in bonds, while most of us are invested in bonds through KiwiSaver. So we wanted to check to see whether New Zealanders realised this, and how much they knew about bonds."

Most people are confident they will get their money back when they invest in a bond. Fewer of us are certain about some of the key risks associated with that investment. Two thirds of people know about interest rates and maturity dates, but there is plenty of uncertainty about other features of bonds that investors should understand.

- 61% of people who invested in bonds knew its interest rate, and 64% knew the maturity date
- two-thirds (67%) said they were certain the company or government issuer would pay their money back, but only 44% knew the credit rating of the bond
- only 52% of all respondents knew that bonds were investing in a form of debt (even among people who had bought bonds this was 64%)
- only 38% knew that bonds are not guaranteed
- just 39% knew that bonds don't keep their original value if you sell them before the maturity date.

"Investing in bonds is often associated with greater certainty and lower risk, but that's not always the case," Mr Gregory said. "We recognise in our Strategic Risk

Outlook that after a long period of lower interest rates, it is inevitable they will rise again. When that happens, bond values tend to fall and there may be negative returns for conservative and default funds.

"It is important investors are not unnecessarily surprised if that happens to their bonds in those conditions. Don't panic. Don't sell or switch out just because you have some negative returns. Think about whether you're still on track for your longer-term goals before making any decisions."

69% of those surveyed thought that Conservative funds are low-risk investments, almost the same as the rating for term deposits. This is not always true, however; conservative funds contain a mix of different bonds, with different maturity dates and credit ratings, and may include some shares.

"Improve your knowledge about the risk of your investments. Reduce your potential to be surprised or take hasty action which harms your ability to achieve your goals. Do your own research about what might happen to them in different market conditions. Get some help from your provider or some professional advice," Mr Gregory said.

[The survey can be found here.](#)

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:
 - [It's never been a better time to be an auditor](#)
 - [Global decline in trust across all institutions](#)
 -

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. Information security is generally recognised as an integral component of doing any sort of business – especially as so much business today is done online. Related to this recognition is the need to elevate the topic of cyber security to the boardroom. While some more forward-thinking companies understand this need, there is still a large number of companies that aren't treating information security as a significant risk to the business. This in turn means they're unknowingly leaving gaps in policy – and it is in those gaps that cyber attackers thrive.

This has emerged in the results of research conducted by Kordia in March this year with more than 180 business decision-makers from New Zealand organisations with 20 or more employees. Respondents provided insight on a range of cyber security issues, including structures for reporting breaches to boards of directors and customers, completeness and effectiveness of tools available, and the presence of policies and training to support an appropriate information security posture.

The study showed that while businesses in New Zealand are generally well-prepared and positioned to respond to cyber security attacks, technology and business executives aren't aligned when it comes to information security. Also, medium-sized companies are more likely than their larger counterparts to leave themselves open to cyber-attacks, and business leaders have little confidence in policies to deal with the aftermath of a data breach.

In businesses with more than 200 employees, 82% of respondents said there are enough tools available to them to educate and assist their business in making informed cyber security decisions, compared to 58% for those with 60 – 99 employees.

Similarly, seven in ten respondents overall stated that their company currently has policies or training in place relating to online security, but the number drops to 58 percent for medium-sized businesses.

Businesses with 20 to 99 employees are less well prepared as they likely don't have the budget, the skills or the inclination to focus on information security. Instead, energies are more likely to be focused on operational issues.

But the most notable finding from the survey is that there is a lack of communication and alignment between Chief Executives/General Managers on the one hand and Chief Technology Officers on the other. IT staff members are much more likely to know there are policies or training systems in place relating to online security (84%), while only 54% of CEOs/GMs know this information. And while 70% of those who have cyber security policies in place are confident that those policies will prevent a cyber breach, the number comes down dramatically depending on who is asked: just 46% of CEOs/GMs believe that the policy in place will be effective in dealing with a cyber-attack.

That technical staff are more confident in the response policy is because they, and not the board of directors, are probably responsible for its design. The 'business' side either perceive the policy as inadequate, or they may simply not know enough about it to have a higher level of confidence.

In other words, cyber security is still broadly the remit of the IT department. Cyber security policy, which should flow from the highest levels of the company, is being left in the hands of the technologists.

To: NZAuASB members

From: Rowena Sinclair**Date: 24th August 2017****Re: Academic update 2017/5**

This fifth update for the year firstly examines professional scepticism, then auditor liability, before turning the spotlight on the length of audit tenure.

(1) Professional Scepticism

Professional scepticism along with independence continues to be one of the cornerstones of auditing. As firms grapple with how best to enhance the professional scepticism of their staff, academics have continued to research professional scepticism in different situations. The two studies here consider professional scepticism, first in terms of issuing going concern opinions, and secondly in relation to staff evaluations.

Going Concern Opinions and Management Earnings Forecasts

Feng & Li's (2014) study examines whether auditors exercise professional scepticism about management earnings forecasts when assessing an audit client's going concern. **Feng & Li's (2014)** United States' study considered financially distressed firms that had audit reports between 2000-2010. Pleasingly their study found that auditors were being professionally scepticism about management earning forecasts when making going concern decisions.

Audit supervisors' evaluations of sceptical behaviour

Brazel, Jackson, Schaefer & Stewart's (2016) study considered a potential barrier to scepticism – outcome effect i.e. whether a misstatement is identified. The authors highlight the impact on audit fees where highly sceptical auditors may decrease audit risk by additional audit procedures. However, this has the potential to increase audit fees and possibly anger the client, e.g. as they respond to unanticipated inquiries.

Their study identified that *“evaluators penalise auditors who employ an appropriate level of scepticism, but do not identify a misstatement”* (**Brazel, et. al 2016, p. 1577**). Hence, their results conversely depict an evaluation system that may inadvertently discourage scepticism among auditors.

(2) Auditor Liability

Audit risk, and thus auditor liability, is something that firms continual to grapple with. The first study looks at auditor liability in terms of jurors' assessment of audit documentation. The second study investigates the 2006-2007 financial crisis and whether there was any cause for auditor liability.

Audit documentation & Auditor liability

Backof's (2015) study investigated how auditors' documentation of their work influences jurors' decisions. The experiment involved 112 jurors called for jury duty. **Backof (2015, p. 2177)** found that *“Auditors' documentation of their consideration of alternative accounting treatments increases jurors' perceptions of the foreseeability of the misstatement, increasing the likelihood that auditors are found negligent. However, jurors recognize auditors' compliance with auditing standards and award lower damages when the same documentation of auditors' consideration of the alternative accounting treatments is combined with audit workpapers that explicitly link the identified risks with the work performed to address those risks”*. Thus highlighting the importance of documenting the risk-based approach taken.

Potential for Auditor liability

Doogar, Rowe & Sivadasan's (2015) consider the financial crisis of 2008-2009 where several prominent financial institutions collapsed in the United States (as well as in other countries) without any warning from their auditors. Their study found *"the lack of advance warning from auditors about impending auditee failure during the lead-up to the crisis is best understood as reflecting the limitations of existing regulation and accounting and auditing institutions rather than as auditor inattention or inability to respond to escalating risk"* (**Doogar, et. al, 2015 p. 383**).

Doogar, et. al (2015) consider there are three policy implications from their study:

1. Risk-based audit approaches used facilitated auditors' ability to recognise and respond to risks in the business environment;
2. Proposals to enhance the content of the auditor's report are appropriate given auditors understanding of the audit client and its environment; and
3. Bank auditors' knowledge of industry conditions can be used by regulators stay informed about emerging risks in the banking sector.

(3) Auditor tenure

Whilst on the theme of professional scepticism it is useful to look at this in terms of auditor tenure.

Short auditor tenure, Client identity & Professional identity

Bauer's (2015) study considers the independence threats that can arise when auditor tenure is short, due to auditors developing a strong client identify. The experiments found that auditors with a stronger client identity agree with client's preferred accounting treatments i.e. less sceptical. Their study further found that scepticism is increased when professional identity salience is heightened. In this case professional identify relates to the "auditors' shared norms, values, and attributes with the audit client (accounting profession)" (Bauer, 2015, p. 96). Professional values include independence and professional scepticism.

Long tenure of United Kingdom Charity Audits

With the focus on regulators to limit auditor tenure it is interesting to look at the audits of the top 5,000 United Kingdom charities whose audit fees totalled GBP69.4 million (**Charity Auditor Spotlight, 2017**). The Report (2017, p. 13) found that *"41% of charities have not changed auditor in past decade "*. Unfortunately, whether this has had an impact on audit quality is not considered in the published report.

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